Annual Report 2017

Západoslovenská energetika, a.s.

ZSE

Obsah

Introduction of the Západoslovenská energetika, a.s. Group

Profile and Structure of the Západoslovenská energetika, a.s. Group

The Západoslovenská energetika, a.s. Group (hereinafter the "ZSE Group") is a leading electricity group in Slovakia whose parent company is Západoslovenská energetika, a.s.

The ZSE Group comprises the parent company Západoslovenská energetika, a.s. and its subsidiaries: Západoslovenská distribučná, a.s., ZSE Energia, a.s., ZSE Development, s.r.o., ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. ZSE Energia CZ, s.r.o. also belongs to the ZSE Group. ZSE Energia CZ, s.r.o. is the 100% subsidiary of ZSE Energia, a.s.

Západoslovenská energetika, a.s. is also the sole founder of Nadácia ZSE (ZSE Foundation).

ZSE Energia, a.s. has branch in Czech Republic.

The parent company Západoslovenská energetika, a.s., Company ID: 35 823 551, with its seat at Čulenova 6, 816 47 Bratislava (hereinafter the "Company" or "ZSE"), was established on 15 October 2001 and incorporated in the Commercial Register on 1 November 2001. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 2852/B.

The mission of the ZSE Group is to carry out electricity and gas supplies and electricity distribution and to provide comprehensive energy-related services to all categories of customers – households, SMEs and strategic enterprises in the Slovak economy. Services are provided in the long-term and reliably, at affordable prices, in an environmentally-friendly manner and in accordance with the EU regulations. The ZSE Group provides services related to electricity distribution and electricity and gas supplies primarily in the region of western Slovakia. Apart from two small water power plants, the ZSE Group has no other facilities for electricity generation in its portfolio. Certain aspects of the relationship between the ZSE Group and its customers with respect to electricity distribution, and electricity and gas supplies, including the pricing of services provided to certain groups of customers, are regulated by the Regulatory Office for Network Industries (ÚRSO). Electricity distribution is subject to regulation, price or factual, to the largest extent.

Company Bodies

The structure of statutory and supervisory bodies of the Company during the year 2017 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2017	
Chairman	Jochen Kley (start of office on 1 June 2016)
Vice-Chairman	Ing. Peter Adamec, PhD. (start of office on 16 November 2016)
Members	Ing. Pavol Viskupič (start of office on 16 November 2016)
	Marian Rusko (end of office on 1 July 2017) Marian Rusko (start of office on 1 July 2017)
	Mgr. Juraj Krajcár (end of office on 5 December 2017) Mgr. Juraj Krajcár (start of office on 5 December 2017)

Supervisory Body

Supervisory Board	
As at 31 December 2017	
Chairman	Ing. Eva Milučká (start of office as a Member on 16 November 2016 and as the Chairman on 8 December 2016)
Vice-Chairman	Markus Kaune (start of office as a Member on 5 December 2016 and as the Vice-Chairman on 8 December 2016)
Members	Robert Polakovič (start of office on 21 November 2012) Robert Polakovič (end of office on 21 November 2017)
	Silvia Šmátralová (end of office on 19 December 2017) Silvia Šmátralová (start of office on 19 December 2017)
	Ing. Martin Mislovič (end of office on 19 December 2017) Ing. Martin Mislovič (start of office on 19 December 2017)
	Ing. Juraj Nyulassy (start of office on 19 December 2017)
	Ing. Lucia Veselská (start of office on 16 November 2016)
	Ing. Erna Dohnáliková (start of office on 16 November 2016)
	Ing. Ján Rusnák (start of office on 16 November 2016)
	Mgr. Tomáš Galbavý (start of office on 16 November 2016)

Audit Committee

The Audit Committee was established by a decision of the Company's General Meeting dated 12 December 2014. The Audit Committee has three members elected and dismissed by the Company's General Meeting.

In year 2017, the Audit Committee of the Company has the following structure:

Ing. Ján Rusnák (from 12 May 2017)
Ing. Juraj Bayer (from 12 December 2014)
JUDr. Peter Hajduček (from 12 May 2017)
Ing. Marian Kapec (till 12 May 2017)
Ing. Marek Hargaš (till 12 May 2017)

Shareholders' Structure

The shareholders' structure in Západoslovenská energetika, a.s. as at 31 December 2017 was as follows:

Shareholders' Structure

As at 31 December 2017	Absolute amount in € thousand	Equity share in the share capital in %	Voting rights
Slovak Republic represented by the Ministry of Economy of the Slovak Republic	100,454	51%	51
E.ON Slovensko, a.s.	76,818	39%	39
E.ON Beteiligungen GmbH	19,697	10%	10

Corporate Governance Declaration

The methods and principles of corporate governance are comprised in the Articles of Association of the Company. The Articles of Association are available in the Collection of Documents of the relevant court – District Court Bratislava I and on the website of the Company www.skupinazse.sk, section Investors – Regulated information.

The Organizational Manual of the Company sets out the principles of the Company´s organisation and internal management of the Company and is the basic and supreme organisational and managing document on the top level in the Company except for the Articles of Association of the Company.

The corporate governance model of the Company includes also internal managing documents which contains orders of the Board of Directors, orders of a member of the Board of Directors, orders of the Chief Executive Officer, orders of a director of a division, directives, manuals and procedures.

Key Internal Control and Risk Management Systems Related to Financial Statements

The Company has the internal control and risk management system in place, related to financial statements. This system consists of various instruments, processes and activities which have been used in accounting and preparing the separate and consolidated financial statements (jointly only as "financial statements") of the Company.

The activities within accounting and preparing financial statements are divided in individual functional steps. Automatic and manual controls are a part of every of these steps. The defined procedures ensure that all accounting transactions and preparation of the Company´s financial statements are recorded and processed in line with the accrual principle and documented in a complete, timely and precise manner.

The Company has introduced and has been using internal managing documentation which includes several directives and procedures. These documents focus mainly on the way of accounting in the Company, accounting procedures, signature rules, chart of accounts, account classification, inventory of assets and liabilities, activation and disposal of assets, impairment provisions, reserves, preparation of financial statements, consolidation and calculation of direct and indirect taxes. Internal managing documentation is a binding document for all employees and represents the application of main accounting principles and accounting methods applied by the Company. The Company follows the amendments to laws, new and amended accounting standards and other relevant documents that have impact on the accounting and financial statements and, if needed, updates internal managing documentation in a relevant way.

The Company has been using an accounting information system which contains automatic control mechanisms set prior. Efficiency of these automatic controls within the accounting information system and other key applications is strengthened by other manual checks. Access rights and their extent are limited depending on the need and only for dedicated employees.

The preparation of the Company´s financial statements requires for further qualitative and quantitative indicators and other information. Furthermore, in order to assess the correctness of this information, relevant organisation units have been using procedures to assess completeness of this information on a regular basis.

The elementary elements of the internal control and risk management system in relation to the financial statements are: approving, review procedures, segregation of duties, four-eye principle, master data and access rights management, and specific requirements for risk management in many key areas and processes such as accounting, financial reporting, communication, planning and controlling and risk management.

Internal controls are an integral part of the Company´s accounting procedures. Internal managing documentation defines uniform requirements for reporting and accounting procedures for the entire ZSE Group. Adhering to these rules give sufficient certainty to prevent errors or fraud which may cause material misstatement in the Company´s financial statements.

The Company´s organisational unit in charge of accounting and taxes carries out, among other things, implementation, administration and setting of accounting information systems and ensures compliance of accounting, financial statements and tax calculations with the Slovak and European laws. Within this unit, individual accounting transactions and financial statements of the Company are subject to review by managers.

The Company´s organisation structure includes Controlling. Controlling processes create a part of internal control mechanism and risk management of the Company. Controlling ensures continuous control of accounting and financial statements.

The role and competences of Internal Audit, Audit Committee, Board of Directors, Supervisory Board and General Meeting of the Company in relation to internal control environment and risk management and to financial statements are presented below.

The organisational structure of the Company also includes the position of Compliance Manager and Department of Internal Audit whose roles are:

- assessment of adequacy and effectiveness of the system of internal supervision, financial, operational and information systems, corporate governance processes and the quality of tasks assigned and performed;
- identification and assessment of operational risks of the Company by using the adequate methodology;
- responsibility for planning and conducting audit of IT systems, their functionalities and equipment including diverse and global environment of information technologies, operation systems and applications;
- performance of audit of information systems and IT infrastructure safety;
- assessment of risk assessment and the conducting of investigations based on risk assessment;
- investigation of crucial suspicions of embezzlement and fraud within companies of the Group;
- responsibility for making and updating of the documentation with the Business Compliance Programme;
- elaboration and updating of the Company Code of Conduct
- performance of the activities relating to verification of the breach of the Ethical Code.

Results of their activities have been regularly assessed and proposals for improvements applied to individual areas of the governance of the Company. Efficiency of internal control and risk management systems in the Company have been also monitored by the Audit Committee of the Company.

Governance Methods and Bodies of the Company

The shareholders exercise their rights by means of the General Meeting in accordance with the regulation contained in the Commercial Code and the Articles of Association of the Company as follows:

General Meeting

1. The General Meeting is the supreme body of the Company. It shall take decisions on the issues relating to the activities of the Company which the Articles of Association, Commercial Code or a specific act place within its authority.

2. A shareholder may exercise its rights in the General Meeting in person or in representation under the written power of attorney.

3. The General Meeting shall be convened by the Board of Directors unless the Articles of Association or Commercial Code provide otherwise. The Board of Directors shall be obliged to convene an ordinary General Meeting within 2 months of the tax return submission. The Board of Directors shall be obliged to convene an extraordinary General Meeting especially due to reasons under Article III(3) of the Articles of Association. The Supervisory Board shall convene an extraordinary General Meeting due to reasons under Article XX(2) of the Articles of Association.

4. The Board of Directors shall convene the General Meeting by an invitation to the General Meeting that must be delivered to all shareholders in the form of a registered mail directly to the address specified in the list of shareholders at least 30 days prior the General Meeting. The invitation to the General Meeting must contain all formalities laid down by applicable laws including information that documents which will be discussed at the General Meeting will be available to shareholders for viewing in the seat of the Company no later than 3 calendar days prior to the meeting of the General Meeting. The invitation to the General Meeting with documents which will be discussed at the meeting shall be sent by the Board of Directors no later than 30 days prior to the General Meeting also to every member of the Supervisory Board to the address specified by him/her, or to the address specified as permanent residence in the Extract from the Companies´ Register of the Company.

5. The General Meeting is usually held in the Company´s seat, however, it may be organised in a different place too. The General Meeting is attended by the members of the Board of Directors, the Supervisory Board and/or other persons.

6. The number of votes of a shareholder is determined by the nominal value of their shares. One vote is attributed to every EUR 33.19.

7. The General Meeting shall take decisions with the two-thirds majority of votes of all the shareholders. Any decision made by the General Meeting on any alterations of the rights associated with a certain type of the shares shall require the approval of two-thirds votes of shareholders. For this reason, the shareholders, being the owners of such shares, simultaneously, at first, shall vote for changes in the rights and then it is the General Meeting of all the shareholders.

8. The General Meeting shall make decisions on the following corporate affairs:
   a) Change of the Articles of Association;
   b) Decisions concerning any increase and decrease in the share capital, empowering the Board of Directors to raise the capital stock in accordance with the Commercial Code and the issuance of bonds;
   c) Decisions concerning the revocation of the business entity by splitting, merging or transformation to a different form of business partnership or cooperative;
   d) Decisions concerning the revocation of the business entity by liquidation, appointment of the liquidator, setting the remuneration for the liquidator;
   e) Election and removal of members of the Supervisory Board, except for the members of the Supervisory Board elected and removed by employees;
   f) Election and removal of the members of the Board of Directors and designation of the Board Chairman and Vice-Chairman;
   g) Approval of proper, extraordinary or consolidated financial statements, decisions concerning profit distribution or loss coverage, including the fixing of directs' fees;
   h) Approval of the Annual Report;
   i) Approval of the principles and techniques of negotiations held by the Supervisory Board of the Company;
   j) Approval of the agreement on performance of responsibilities of board members and their rewarding based upon proposals made by the Board of Directors and the Supervisory Board;
   k) Decisions concerning the changes in rights attributed to the different types of shares;
   l) Decisions concerning the approval of the Company Transfer Agreement or the Partial Company Transfer Agreement;
   m) Decisions concerning the changes in the form of shares;
   n) Decisions concerning the approval of transfer of the Company assets, the market value of which exceeds 20% of the Company turnover in the immediate prior accounting period or the sale of which refers to 20% of Company employees;
   o) Decisions concerning the beginning or termination of trading with the Company stock at the stock exchange;
   p) Decisions concerning the emission of shares, options or other securities or financial instruments that provide the rights for shares or other equity stake in the Company, or right for their underwriting, or decisions allowing the Company to equity stakes in the Company;
   q) Approval of the share transfer in accordance with the Articles of Association;
   r) Appointment and removal of a decision-making person;
   s) Approval of proposals rejected by the Supervisory Board in accordance with the Articles of Association;
   t) Decision concerning other matters that are subject to the performance of the General Meeting as stated by law or the Articles of Association;
   u) Prior approval with the matters relating to Západoslovenská distribučná, a.s. and ZSE Energia, a.s. specified in more detail in the Articles of Association;
   w) Prior approval with any changes/amendments/ supplements in the Novation Agreement, whose full wording was approved by the General Meeting on 30 May 2014;
   (x) Election and removal of members of the Audit Committee of the Company, approval of the agreement on performance of individual functions by Audit Committee members and their remuneration and approval of the negotiation order for the Audit Committee of the Company.

Rights and Duties of Shareholders

1. A Company shareholder may be Slovak or foreign legal or natural person.
2. By making the entry of the Company or of an increase in the share capital in the Companies Register a share underwriter shall obtain the rights of a shareholder as a partner of the joint stock company corresponding to the shares underwritten.
3. Fundamental rights of a shareholder shall include the right to participate in Company´s management activities, in profit sharing and liquidation balance following the dissolution of the Company with liquidation. The right to participate in corporate governance shall be exercised by a shareholder through their participation and voting at the General Meeting.
4. The rights and obligations of the shareholders are defined in detail in the Articles of Association and the Commercial Code.

The Board of Directors

1. The Board of Directors is a statutory body of the Company. It shall act on behalf of the Company in relation to the third persons. The Board shall control the corporate activities and take decisions in all the matters associated with the Company unless applicable laws or the Articles of Association place them within the authority of other bodies of the Company.

2. The Board of the Company consists of five (5) members. The members of the Board of Directors are elected and removed by the General Meeting, whereas the Chairman and Vice-Chairman of the Board of Directors are elected too. The term of office of the members of the Board of Directors shall be four (4) years; the term of office is renewable. Any member of the Board of Directors shall have the right to give up his/her position; however, he/she shall be obliged to report such act to the Board of Directors and Supervisory Board in writing. A member of the Board of Directors of the Company may not be a member of the Board of Directors of the subsidiary Západoslovenská distribučná, a.s. The performance of the office of the member of the Board of Directors may not be delegated.

3. If the number of members of the Board of Directors is not less than half, the Board of Directors shall have the right to appoint alternates until the time of the nearest General Meeting of the Company. The Board of Directors has a quorum if the absolute majority of its members are present at the meeting. The Board of Directors shall adopt resolutions by absolute majority of votes of the members present at the meeting. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Board of Directors may be adopted, in addition to meetings of the Board of Directors, by members of the Board of Directors, out of the meeting of the Board of Directors ("per rollam resolution").

4. E.ON, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Board of Directors of the Company will not adopt any resolution if not a single member nominated by the Ministry of Economy of the Slovak Republic (only the "Ministry") as a shareholder of the Company is present at the relevant meeting. If a member nominated by the Ministry is absent from two consecutive, regularly convened meetings of the Board of Directors, the above stated shall not apply to the second of these meetings.

Structure and activities of the Board of Directors

In 2017 the Board of Directors of the Company had the following structure:

Board of Directors	
Chairman of the Board of Directors	Jochen Kley
Vice-chairman of the Board of Directors	Ing. Peter Adamec, PhD.
Members of the Board of Directors	Ing. Pavol Viskupič
	Mgr. Juraj Krajcár
	Marian Rusko

The activities of the Board of Directors were performed in line with the Articles of Association and Commercial Code; in 2017 the Board of Directors held meetings regularly and in line with Articles of Association, and in line with Article XVIII(7) of the Articles of Association the Board of Directors adopted several resolutions out of the meeting of the Board of Directors ("per rollam resolutions") in 2017.

Supervisory Board

1. The Supervisory Board is the supervisory body of the Company which oversees the activities of the Board of Directors and business activities of the Company. Resolutions and duties charged with the Board of Directors by the Supervisory Board were performed, and regularly reviewed and assessed at the meetings of the Supervisory Board. The activities of the Supervisory Board are explained in detail in Article XX of the Articles of Association.

2. The Supervisory Board of the Company has nine (9) members. Two thirds of members of the Supervisory Board shall be elected and removed by the General Meeting of the Company and one third by the Company's employees. The term of office of the members of the Supervisory Board shall be three (3) years. The term of office is renewable. The Chairman and Vice-chairman of the Supervisory Board of the Company shall be elected and removed by the members of the Supervisory Board; the persons concerned shall also vote. The office of the Chairman and Vice-chairman of the Supervisory Board shall commence on the day of their election and end upon their removal by the Supervisory Board. Neither Chairman nor Vice-Chairman shall have the

casting vote in case of a tie. Performance of the office of the member of the Supervisory Board of the Company may not be delegated.

3. The meeting of the Supervisory Board of the Company shall be convened by a written invitation sent to every member of the Supervisory Board to the address specified by him/her or to the address of the seat of the Company no later than 15 days prior to every meeting. The invitation must include date, time, venue and the agenda of the meeting.

4. The Supervisory Board has a quorum if the absolute majority of its members are present at the meeting. The Supervisory Board shall adopt resolutions by absolute majority of votes of all members of the Supervisory Board. The members of the Supervisory Board may participate in the meetings of the Supervisory Board in any form of communication during which all participants hear one another. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Supervisory Board may be adopted, in addition to meetings of the Supervisory Board, by members of the Supervisory Board out of the meeting of the Supervisory Board ("per rollam resolution").

5. The Slovak Republic, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Supervisory Board of the Company will not adopt any resolution if not a single member nominated by E.ON is present at the relevant meeting. If a member of the Supervisory Board of the Company nominated by E.ON Slovensko, a.s. is absent from two consecutive, regularly convened meetings of the Supervisory Board, the above stated shall not apply to the second of these meetings.

In 2017 the Supervisory Board of the Company held four regular meetings in line with the Articles of Association; in line with Article XXII(8) of the Articles of Association the Supervisory Board of the Company adopted a resolution out of the meeting of the Supervisory Board ("per rollam resolutions") in 2017.

Audit Committee

1. Without prejudice to responsibilities of the members of the Board of Directors and the Supervisory Board of the Company, the Audit Committee is a body of the Company in charge of the following activities:
   a) monitors the drawing-up of the financial statements (separate and consolidated) and compliance with special regulations;
   b) monitors the efficiency of internal audits and risk management systems in the Company;
   c) monitors the audit of the separate and consolidated financial statements;
   d) verifies and oversees the independence of the auditor, in particular services provided by the auditor under the special regulation;
   e) recommends the auditor for the Company;
   f) sets him/her deadlines for presenting a declaration on honour on his/her independence.

The Audit Committee has three (3) members elected and removed by the General Meeting on a proposal from the Board of Directors or shareholders of the Company.

Information pursuant to Section 20(7) of the Act No 431/2002 Z. z. on Accounting as amended:

a) The share capital of the Company of EUR 196,969,174.86 is composed of 5,934,594 pieces of booked ordinary shares of the nominal value of EUR 33.19 per share. Shares are not publicly negotiable. The whole amount of share capital of the Company was issued and paid in full. The Company has no subscribed share capital which would not be listed in the Companies Register. The transferability of the Company's shares is limited to pre-emptive rights of shareholders in cases that do not fall under the permitted transfers.

b) The Company´s bonds are freely transferrable.

c) The following companies own qualified share in the share capital: (at least 10 % share)::
- Slovak Republic represented by the Ministry of Economy of the Slovak Republic - 51% share in the share capital of the Company;
- E.ON Slovensko, a.s. - 39% share in the share capital of the Company;
- E.ON Beteiligungen GmbH - 10% share in the share capital of the Company.

d) There are no persons exercising special control rights among the owners of the bonds.

e) The Articles of Association do not contain any provisions on restrictions of voting rights.

f) The Company is not familiar with any agreements among the owners of the bonds of the Company that might lead to any restrictions as regards the transferability of the bonds or restriction of voting rights.

g) The rules governing the appointment and removal of the members of the Board of Directors as a statutory body of the Company and changes to the Articles of Association:

Members of the Board of Directors as a statutory body of the Company shall be elected and removed by the General Meeting of the Company. The General Meeting may anytime remove any member of the Board of Directors of the Company. Also, the General Meeting shall also appoint the Chairman or Vice-Chairman of the Board of Directors of the Company. The term of office of the members of the Board of Directors of the Company shall be four (4) years.
The General Meeting shall make decisions concerning the amendment of the Articles of Association by two-third majority of votes of all shareholders. The full wording of the proposed amendments of the Articles of Association shall be available to shareholders for viewing at the Company´s seat within a period of time required for the convocation of the General Meeting, as stated in the Articles of Association. A Notarial Deed must be established about the resolution of the General Meeting to amend the Articles of Association. If the General Meeting adopts a resolution the consequence of which will be the amendment of the Articles of Association such resolution shall be considered the amendment of the Articles of Association provided that it was adopted in a manner which is by law or the Articles of Association required for the adoption of the resolution about the amendment of the Articles of Association. Following such amendment the Board of Directors shall be obliged to make without undue delay the full wording of the Articles of Association for the completeness and correctness shall be fully responsible.

h) Powers of the statutory body – the Board of Directors – are presented in the Commercial Code and the Articles of Association.

The Company´s Board of Directors shall exercise the right to act on behalf of the Company, represent the Company in relation to the third persons. The Board shall govern the activities performed by the Company and take decisions in all the relevant matters unless applicable laws or Articles of Association place them within the authority of other bodies of the Company.

The Company´s Board of Directors is mainly in charge of the following:
(i) Performing the business management of the Company and ensuring all its operational and organisational matters;
(ii) Exercising the employment rights and duties;
(iii) Convening the General Meeting;
(iv) Outlining the Strategy Plan of the Company and submitting the plan for approval to the Supervisory Board of the Company;
(v) Implementing the resolutions of the General Meeting;
(vi) Ensuring the prescribed accounting and other records, accounting books and other documents relevant for the Company;
(vii) Submitting for approval of the General Meeting:
- Proposals for amendments of the Articles of Association;
- Proposals for increasing and decreasing the share capital and issue of bonds;
- Ordinary, extraordinary and consolidated financial statements, proposal for profit distribution, including the setting of the size and manner of the paying out of the bonuses, in case of the loss recognized, proposal for its settlement;
- Proposal for dissolving the Company or alteration of its legal form;
- Proposal of the remuneration for performing the function of a board member;
- proposals related to the decisions concerning the matters of Západoslovenská distribučná, a.s. and ZSE Energia, a.s. where the relevant decision taken by the General Meeting of Západoslovenská distribučná, a.s. or the General Meeting of ZSE Energia, a.s. shall require the prior approval of the General Meeting of the Company to be made in accordance with relevant provisions of the applicable Articles of Association of the Company.

The Company´s Board shall have no right to make decision on the issue of shares or share re-acquisition.

i) The Company shall have no agreements concluded that are binding to amend its conditions in relation to a potential offer for takeover.

j) There shall be no agreements on reimbursement concluded between the Company and the body members of its bodies, once their service term comes to an end. Reimbursement to Company´s employees whose employment contract is terminated is subject to the Labour Code, collective agreement and in-house employment directives.

The Company does not apply special diversity policy in relation to the members of bodies of the Company because their diversity is ensured indirectly through diversity in the structure of shareholders of the Company (state shareholder and non-state shareholders) who propose candidates for the positions of the members of the Board of Directors and Supervisory Board of the Company elected by the General Meeting (candidates for the positions of the members elected by employees are proposed by employees and diversity is ensured indirectly through diversity in the composition of employees who propose candidates and elect such members of the Supervisory Board). No discrimination is allowed in the Company. In proposing candidates for the members of the Board of Directors and Supervisory Board and selecting broader management of the Company, mainly education, competence, experience skills are taken into account.

„Compliance program"

In 2017 special attention was paid to the development and implementation of "Compliance Programme", i.e. a set of processes focused on compliance with law and ethical conduct of employees of ZSE Group in all areas of the working life. The "Compliance Programme" has been gradually implemented in all subsidiaries of the ZSE Group, including Západoslovenská energetika, a.s.

The main objective of "Compliance Programme" is to prevent, reveal and respond to conduct which could be considered in conflict with internal and applicable laws.

ZSE Code of Conduct

The essential document of the "Compliance Programme" is the Code of Conduct which defines responsible business principles to which companies of the ZSE Group are committed. At the same time, it is a binding guideline on the conduct of employees, contractors and all who cooperate with the companies of the ZSE Group. In order to increase ethical awareness of the employees of ZSE Group, many educational activities were undertaken, scope of which was defined depending on the tasks and responsibilities of individual participants. In cooperation with Human Resources, the Company continues in providing an e-learning training to all employees.

ZSE Group has established the Ethical Line through which the employees may notify the breach of internal or applicable laws.

Zero Tolerance for Corruption

In line with ten principles of the Global Compact under which the companies and firms seek to prevent corruption in all its forms, the ZSE Group engages in the fight of corruption and this commitment is expressed in the Zero Tolerance Plan for Corruption. This Plan is a part of the Code of Conduct and was developed based on the analysis of activities which are exposed to risks of corruption and unfair practices the most.

- **Giving and accepting gifts**
  Procedures for giving and accepting gifts are a part of anti-corruption measures included in the Code of Conduct. All gifts to be given, except for gifts within defined limits, must be approved and documented according to the defined procedures in the central register of gifts.
- **Contributions to political parties, charity and sponsorship gifts**
  Programmes for gifts and sponsorship are transparent. As a sponsor, the ZSE Group supports specific projects and initiatives in the areas such as education, environment protection, innovation and community development, if they meet the following criteria:
  - objectives are linked to the objectives and mission of the Company,
  - the funds have clearly defined purposes, and their use is properly and transparently documented and verifiable anytime.

  The ZSE Group does not finance political parties, their candidates or representative, either in Slovakia or abroad, nor does sponsor meetings or assemblies whose the only or main purpose is political promotion.
- **Money laundering**
  In the fight on money laundering and terrorist financing, the ZSE Group proceeds in line with Slovak and European laws. The ZSE Group never excuses, facilitates or supports money laundering which means that:
  - respects laws concerning money laundering,
  - never engages in risk activities which could be focused on financing or support of criminal terrorist activities,
  - adopts measures and mechanisms of assessment of potential and current business partners.

Internal control mechanism:

It is a continuous process which is performed by the Board of Directors through managers and experts of the Company, so that all stakeholders are provided with reasonable guarantees to achieve strategic objectives of the Company. For this purpose, the Company has established:

1. **Internal Control Mechanisms.** Internal control mechanisms have been implemented at the level of individual processes with the aim of identifying and preventing risks of fraud, corruption and unfair practices. The aim of the system of internal controls is prevention and timely identification of errors and incorrections which may occur as a result of intentional fraud and unintentional action or omission.
2. **Internal audit** is independent, impartial, assurance and advisory activity focused on adding value and improving processes in the Company. The ZSE Group has established Internal Audit unit which permanently controls the system of implemented control mechanisms, identifies shortcomings and proposes action plans to improve internal control system and make them more efficient.

2. Strategy and Innovations

Energy in Europe and our strategy

The electricity market was characterised by turbulent development. Especially the first quarter was affected by higher demand for coal, gas and electricity produced out of these raw materials. The reason behind was extremely cold winter and persisting issues with the production in nuclear power plants in France and Asia.

Dry weather in the Scandinavian region and in Southern Europe caused the below-average production of renewable energy which showed its effects. Energy prices in summer time were affected by above-average temperatures and increasing consumption. Therefore, in general, forward and spot prices on the energy exchange were going up throughout the year. The price of power energy on the energy exchange went up by 18% between 2016 and 2017. There was also an increase of the Slovak price bonus towards liquid markets, mainly as a result of changes on cross-border flows. Considering the situation in the transmission systems, this trend can continue also in the following years. Gas prices dropped after the cold winter and increased use of raw material for electricity production and were kept at this year´s minimums, whereas there was an increase in the end of the year, however, gas price went up by 10% as compared to the previous year.

Within the European context, in 2017 considerable progress was made in completing the Energy Union. Last year was characterised by discussions about the published 4th Energy Package, the so-called Winter Package, which concerns both business and distribution. From the business perspective, it concerns mainly the deregulation of energy end prices, efficient movements on the market, better access to consumption data and its management, support of active customers – prosumers and customer communities. From the distribution perspective, it is about creation of superior European bodies, cyber security, data access support, IMS and support of active customers and energy communities.

Therefore, ZSE Group wants to bring new value-added solutions and products and to play the role of a pioneer in energy innovations, while maintaining its position of a stable and reliable energy distributor and supplier.

Traditional business

In terms of electricity distribution, the distribution system operator – Západoslovenská distribučná, a.s., was a reliable distributor and its economic results reflect historically the greatest volume of electricity it was distributed to customers by Západoslovenská distribučná, a.s. Higher volume of distributed electricity and requirements for new connections as well as increased capacity of the existing connections can be seen in the growing volume of investments. In terms of supply, ZSE Energia, a.s. continued to be a stable supplier in 2017; it supplied more than 5.7 TWh of electricity and almost 2.7 TWh of gas. These volumes show that the fall in electricity supply recorded in previous years has stopped and the importance of the company ZSE Energia, a.s. as a gas supplier on the Slovak territory is on the rise.

In addition to traditional business, ZSE Energia, a.s. saw also successes in non-commodity services launched already in 2015. In 2017, the number of customers with this type of products kept increasing. Among the most popular products are assistance services.

Innovations

Keeping in mind the active approach to technology development, innovative activities both internally and externally were undertaken. In terms of internal processes, several adopted several improvements were adopted, increasing their degree of digitisation too. Both the supplier and distributor launched many online services the customers can benefit from.

The most tangible innovation externally are mainly activities related to e-mobility in Slovakia, and activities which will lead to innovative smart solutions for households and municipalities. As far as innovations and new innovative products are concerned, ZSE presented a new innovative brand "ZEON, Innovations by ZSE".

Speaking about e-mobility, ZSE has been engaged in several activities – either its own initiatives or initiatives which are a part of international projects. In 2017, ZSE managed to get again the grant within the Connecting Europe Facility (CEF) supported by the European Commission, for another international projects NEXT-E and URBAN-E. Currently, ZSE is then implementing four international e-mobility projects – FAST-E, EAST-E, NEXT-E and URBAN-E.

Within these projects, more than 100 charging stations for e-vehicles will be built on the sections of main European corridors passing through the Slovak Republic and in the capital Bratislava.

Regarding smart solutions, last year we launched solutions focused on smart home and renewable energy sources. ZSE also continued in cooperating with Slovak cities on the Smart City concept. Such global projects require for necessary partnerships between several entities whose services and products form synergies, with ZSE as a natural key player.

ZSE Group did not incur any expenses in the area of research and development.

Expectations for year 2018

The implementation of the energy package of the Energy Union is expected to continue. It is expected that there will be some changes to laws concerning clean and smart transport and regulatory support for global solutions for renewables and energy efficiency in business, households and public sector. The strategy of ZSE Group fully reflects all these trends, nevertheless ZSE Group will keep flexibility in its responses to even less predictable changes in geopolitical or macroeconomic development so that it remains a stable partner for energy solutions to its customers.

Risks and Uncertainties

ZSE Group will continue to be in charge of developing new projects and innovative solutions that will reflect the strategic direction of the ZSE Group facing the challenges resulting from the macro-economic and market changes.

ZSE Energia, a.s.:
The core business activity of ZSE Energia, a.s. is electricity and gas supply to end consumers. In relation to energy supply business, ZSE Energia, a.s. is exposed to several risks – especially credit and price commodity risk.

Credit risk is related to the liquidity risk of the company's business partners, in particular the electricity and gas consumers. The company has an internal credit risk assessment process, which involves assigning an individual credit rating to its customers based on a combination of independent financial information and their payment discipline. ZSE Energia, a.s. actively uses insurance of receivables, as an additional risk management tool.

Market risk is caused by changes of market variables as a result of commodity market supply and demand development. It takes a form of energy price fluctuations and economic environment dynamics. Price fluctuations can have impact on the closing price of the open position of the company. The company applies a conservative approach to managing commodity business by maintaining a limited open position and through back-to-back commodity buying (at the moment of the sales volume contracting).

Západoslovenská distribučná, a.s.:
The core business activity of Západoslovenská distribučná, a.s. is electricity distribution. The company is exposed to operational risks, which are related to the distribution system operation and management. It includes failures, unplanned supply disruptions and compliance with applicable laws. The main tool for eliminating these risks is ensuring of the continuous distribution network renewal as well as insurance of unplanned circumstances. Západoslovenská distribučná, a.s. is exposed also to credit risk. Due to the monopoly position of the company, the contractual relationship with the customer is strictly regulated. The company actively uses insurance of receivables, as an additional risk management tool.

The significant events occurred after the end of 2017 requiring recognition or disclosure in the Annual report

The extraordinary General Meeting of shareholders of the Company on its session held on 18 December 2017 approved several organisational changes in the Company effective from 1 January 2018 (detailed information is presented in the separate financial statements of the Company, which is annex to this Annual report). The completion of the transaction is expected during the year 2018.

The Company issued bonds on 2 March 2018 in nominal value of EUR 315,000 thousand which are due on 2 March 2028 and carry a coupon of 1.750% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

After 31 December 2017, no other significant events have occurred that would require recognition or disclosure in this Annual report.

3. Economy

Selected Data from the Separate Financial Statements

In 2017, the parent company Západoslovenská energetika, a.s. generated a profit of EUR 70,694 thousand and incurred costs totaling EUR 62,078 thousand from continuing and discontinued operations.

The Company's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Company's Key Figures as at 31 December

€ thousand	2017	2016
Non-current assets	646,524	967,416
Current assets	422,214	88,435
Total assets	**1,068,738**	**1,055,851**
Equity	354,824	334,705
Non-current liabilities	316,885	631,718
Current liabilities	397,029	89,428
Total equity and liabilities	**1,068,738**	**1,055,851**
Continuing operations:		
Revenues	18,248	18,341
EBIT (profit from operations)	**69,370**	**51,475**
EBITDA	71,960	54,279
Total income	112,996	97,295
Total expenses	43,542	47,914
Profit before tax	69,454	49,381
Profit for the year from continuing operations	**68,834**	**49,057**
Profit for the year from discontinued operations	1,860	1,803
Profit for the year	**70,694**	**50,860**
Total other comprehensive income for the year	(111)	270
Total comprehensive income for the year	**70,583**	**51,130**
Total comprehensive income for the year from continuing operations	68,776	49,197
Total comprehensive income for the year from discontinued operations	1,807	1,933
Capital expenditures	6,140	3,650
Average number of employees	306	303

Distribution of the 2016 Profit

The General Meeting of Západoslovenská energetika, a.s. held on 31 May 2017 approved the proposal for the distribution of the 2016 profit of EUR 50,860 thousand. In June 2017 the Company's shareholders were paid dividends from the 2016 profit in the total amount of EUR 50,465 thousand. Also, the amount of EUR 395 thousand from the 2016 profit were designated as a contribution to the social fund from profit. In 2017, the dividend per share amounted to EUR 8.50 (2016: EUR 9.70 per share).

Decision on the 2017 Profit Distribution

At its meeting on 21 March 2018 the Board of Directors of Západoslovenská energetika, a.s. acknowledged and recommended to the Supervisory Board of Západoslovenská energetika, a.s. to discuss the following proposal for the distribution of the Company's profit for 2017:

Proposal for Distribution of ZSE's 2017 Profit

Submitted to the Board of Directors of ZSE on 21 March 2018	€ thousand
Profit/loss for the year	**70,694**
Contribution to the social fund	204
Dividends	70,490
Total distribution of profit	**70,694**

Selected Data from the Consolidated Financial Statements

In 2017, the ZSE Group generated a profit of EUR 97,561 thousand and incurred costs totaling EUR 960,059 thousand. The ZSE Group's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key figures about the ZSE Group as at 31 December

€ thousand	2017	2016
Non-current assets	807,696	771,167
Current assets	214,258	192,827
Total assets	**1,021,954**	**963,994**
Equity	50,226	3,122
Non-current liabilities	452,326	752,919
Current liabilities	519,402	207,953
Total equity and liabilities	**1,021,954**	**963,994**
Revenues	1,064,997	1,000,706
EBIT (profit from operations)	**150,956**	**145,707**
EBITDA	200,049	194,497
Total income	1,089,993	1,026,806
Total expenses	960,059	904,805
Profit before tax	129,934	122,001
Profit for the year	**97,561**	**98,622**
Other comprehensive income for the year	8	1,104
Total comprehensive income for the year	**97,569**	**99,726**
Average number of employees	**1,811**	**1,793**

Structure of Electricity Sources and Use

Structure of Electricity Distribution

In GWh	As at 31 December 2017	Share (%)	As at 31 December 2016	Share (%)
Wholesale	5,886	61	5,645	60
Retail – businesses	1,411	14	1,397	15
Retail – households	2,386	25	2,305	25

Structure of Electricity Supplies

In GWh	As at 31 December 2017	Share (%)	As at 31 December 2016	Share (%)
Volume of electricity supplied including losses (GWh)	6,253	100	6,212	100
Of which: supplies to households (GWh)	1,927	31	1,885	30
Of which: supplies excluding households (GWh)	4,326	69	4,327	70

Useful electricity supply (GWh)

Year	Total
2017	6,253
2016	6,212

Distributed electricity (GWh)

Year	Total	Of which: wholesale	Of which: retail
2017	9,683	5,886	3,797
2016	9,347	5,645	3,702

Information on sales in monetary and Gwh terms from electricity distribution:

Indicators of Západoslovenská distribučná, a.s.

As at 31 December	2017	2016
Volume of electricity distributed (GWh)	9,683	9,347
Revenues from electricity distribution (’000)	495,440	464,474
Number of supply points	1,133,195	1,119,364

Information on sales in monetary and GWh terms from electricity supply to customers:

Indicators of ZSE Energia, a.s

As at 31 December	2017	2016
Volume of electricity sold (GWh)	6,253	6,212
Revenues from the sale of electricity (€ thousand)*	677,452	662,638
Volume of electricity purchased (GWh)	6,253	6,212
Volume of electricity generated (GWh)	0	0
Number of supply points	920,783	926,938

Information on sales in monetary terms for the ZSE Group:

Indicators of the ZSE Group

As at 31 December	2017	2016
Volume of electricity sold (GWh)	6,253	6,212
Volume of electricity distributed (GWh)	9,683	9,347
Revenues from the sale and distribution of electricity (€ thousand)*	953,575	907,814
Volume of electricity purchased (GWh)	6,249	6,207
Volume of electricity generated (GWh)	4	5

Information on sales in monetary terms from gas supply to customers:

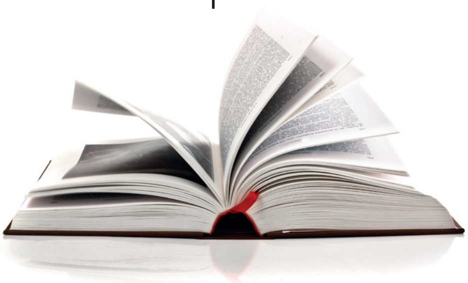
Indicators of ZSE Energia, a.s

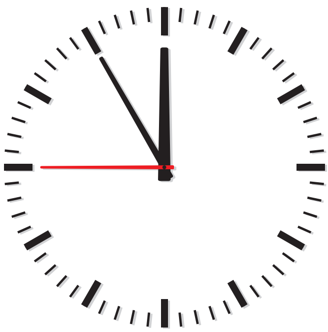
As at 31 December	2017	2016
Revenues from the sale of gas (€ thousand)*	98,973	81,329
Volume of gas supplied (GWh)	2,727	2,084
Number of supply points	63,760	56,346

*Sales include distribution charges from distribution system operators outside the ZSE Group

The PwC network provided the following non-audit services during the current accounting period:
- consulting services under the Article 5 (1) (a) (i) of Regulation (EU) No. 537/2014 which are allowed by paragraph 33 of the Act No. 423/2015 in amount of EUR 17 thousand for the ZSE Group of which EUR 7 thousand was for the Company;
- services in area of job grading and benchmarking in amount EUR 12 thousand for the Company, which was not a cost control service;
- trainings in amount of EUR 1 thousand for the Company.

The above-mentioned services were approved by the Audit Committee of the Company.





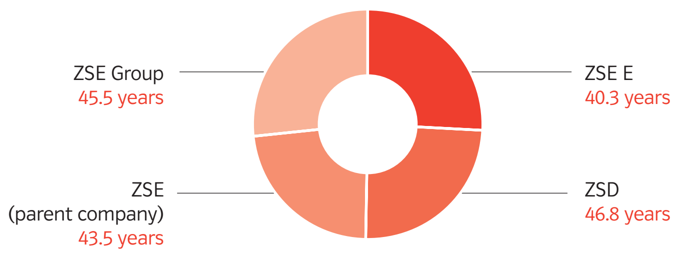
Human Resources

In year 2017, the ZSE Group employed 1,811.3 employees on average (excl. members of the Board of Directors and Supervisory Board and employees who worked on the basis of the agreement on performance of work). The structure of employees was as follows:

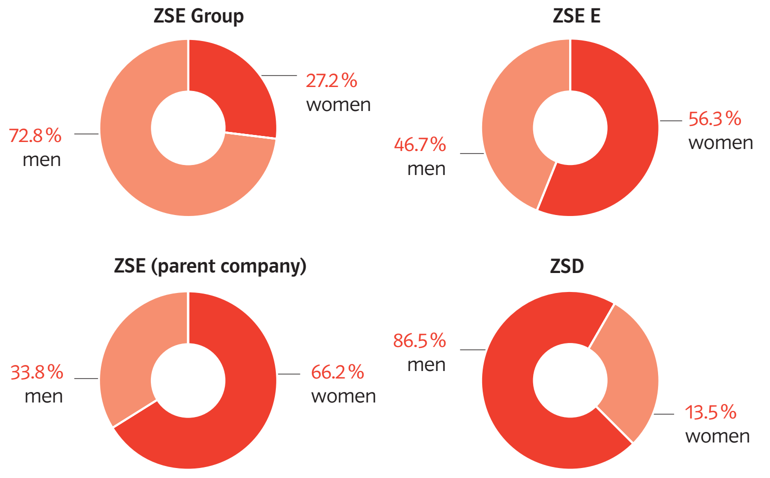
The structure of employees

ZSE	306,1 employees
ZSEE	203,7 employees
ZSD	1291,6 employees
ZSE MVE	8 employees
ZSE BS	1,9 employees

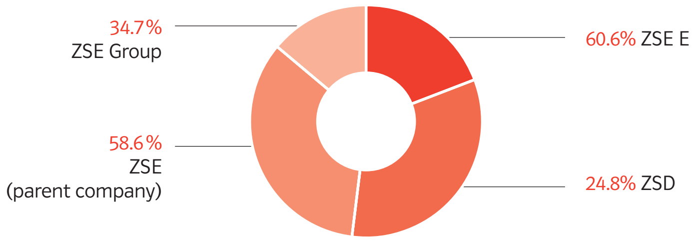
Average age of employees



Percentage of men and women working in the ZSE Group



University education



Remuneration and employee benefits

In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 1.83% on average.

Employees were remunerated based on their performance which directly affected the sum of the variable part of the wage and extraordinary bonuses.

All employees of ZSE Group received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to the employees.

The employer continued in contributing to the supplementary pension savings scheme of the employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Training

In 2017, 1,003 training activities were carried out in the ZSE Group. Average costs per one employee were EUR 386.7 and one employee spent 5.6 days on average in the training.

The biggest part of these activities concerned trainings required by law. In case of other trainings, the bigger emphasis was placed on individual approach to development needs of the employees. Trainings focused also on a group of team leaders, through a comprehensive development programme. We continued improving communications skills of metering service technicians.

Successor programme "Talent Pool" focused on development of talented employees of the companies Západoslovenská distribučná, a.s. and ZSE Energia, a.s. through an intensive development programme.

ZSE Group gives space to students of secondary schools and universities. University students can participate in the scholarship programme, with a prospect of taking up a specific work position in ZSE Group. Talented graduates of universities and secondary schools can participate in the so-called "Graduate Programme", during which ZSE Group trains successors for key positions through a systematic development and job rotations in selected technical units. We offer also several projects for students of secondary schools. Traditionally, "ZSE Open" is the biggest event. As a part of this event, students and pedagogues of secondary schools of electrical engineering have an opportunity to spend one day in ZSE Group. The development and competition project "4E.ON" continued and we supported 20 projects from 16 secondary schools of electrical engineering focusing on production of interactive education aids for secondary schools. In order to train potential future employees, ZSE Group entered a dual education system in cooperation with two secondary vocational schools in Bratislava and Trnava.

Elektrárňa Piešťany also offered its educational projects to students of primary schools. We also organised a correspondence competition Finding Energy subtitled Tesla vs Edison, in which 300 students from more than 160 primary schools were engaged.

Occupational Health and Safety

Occupational Health and Safety

In terms of occupational health and safety, ZSE Group paid close attention to the working and social conditions of its employees. Through various activities we successfully raised awareness of employees with respect to occupational health and safety, healthy lifestyle, fitness and flexibility enhancement. A sum of EUR 819,424 was spent on personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups for all companies of the ZSE Group.

The TRIF comb. indicator – a number of incidents incurred by the employees and employees of contractors per 1 million hours of work for the reporting period – is reported in the ZSE Group. In 2017, the TRIF comb. was 0.6. In 2017, two registered work accidents of the ZSE Group employees were reported. In 2017, employees of contractors worked 292,178 hours in total at the sites or facilities of the ZSE Group.

Within the supervisory audit in 2017, ZSE Group showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 14001 and OHSAS 18001. The re-certification agency identified SIM strengths and improvements and came to the conclusion that SIM is in line with the requirements of ISO 14001 and OHSAS 18001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification.

At the same time, the agency came to the conclusion that requirements of the new reviewed standard ISO 14 001:2015 have been implemented in ZSE Group, based on which it issued the certificate ISO 14001:2015.

06. Environmental Protection

Environmental Protection

Environmental protection is one of our top priorities of ZSE Group. With the aim of protecting and improving quality of environment, ZSE Group takes preventive measures in all business activities we perform.

By implementing specific environmental projects, ZSE Group takes a proactive approach to protecting avifauna, avoiding soil and water contamination and adopting measures aimed at reducing noise in the vicinity of its operations.

In 2017, the companies of the ZSE Group invested EUR 532 thousand in environmental constructions and repairs. A sum of approx. EUR 570 thousand was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Specifically, sewage systems in the operated objects, new parking areas and transformer stations´sites were modernised. Oil facilities were replaced by gas-filled-facilities. All these activities were carried out in order to reduce the risk of polluting underground water and soil.

With the aim of eliminating the risk of death of protected species of birds after they collide with power lines, Západoslovenská distribučná, a.s., within the "LIFE Energy in Countryside" project, equipped more than 16 km lines with flight route deflectors. In addition, it equipped 620 line masts with console pads, reducing the risk of death of birds when they land on the line masts.

When repairing energy facilities and constructions, ZSE Group observes thorough separation of waste and its subsequent disposal and recovery by authorised businesses. Special attention was paid to the maintenance of equipment containing SF6 gas, which is classified as a fluorinated greenhouse gas. Gas leaks are consistently monitored and recorded.

ZSE Energia, a.s. offers to its customers services supporting environmental solutions for saving natural sources and using renewable energy sources. At the same time, when selling ZEON products to its customers, it respects its obligations of the importer of specified products, as required by waste management applicable laws.

7. Social Responsibility

Social Responsibility

The ZSE Group is among the corporate social responsibility leaders in Slovakia and its principles are in the middle of our daily business decisions and strategy. Corporate social responsibility directly effects loyalty and satisfaction of employees. It includes our actions not only in energy sector but also approach to local communities and environment.

Activities of ZSE Group are oriented on support for education, innovations, environmental protection and community development.

Education

Education of good quality is an instrument which would enable responsible decision-making. By supporting educational projects, schools will promote creative and critical thinking.

In 2017, we continued to develop the Green School programme partnership. The **Green School** is an educational programme designed for kindergartens, primary and secondary schools which wish to change themselves and their environment. The aim of the programme is to support school communities where their members can test both the magic and pitfalls of cooperation. Pupils with the help of their teachers and parents solve real needs of their schools and environment, thus contributing to positive change. The programme promotes long-term and practical initiatives with real positive impact on schools and environment.
The main coordinator of the programme is ŽIVICA - a centre of environmental and ethical education. The Green School programme has been in place in Slovakia since 2004. In the school year 2016/2017, 314 schools were engaged in the programme, out of this number 110 schools got the certificate.

ZSE has been a partner to the Socrates Institute for some years. It is an official study programme for university active students, aimed at training Slovak future leaders. The Institute aims to create conditions for development of personalities, young people who are willing to work on themselves, bear responsibility for what they do and pursue their vision. The **Socrates Institute** is opened to students or graduates of any field, so scientists, lawyers, economists, doctors, journalist or artists study together.

Innovations

To support innovations, Impact Hub is a key partner. Impact Hub is a part of an international platform of experts, organisations, teams and individuals who pursue a common objective – **building better conditions for social business development** on local markets and worldwide. It creates a unique ecosystem of sources and inspiration which supports beneficial projects and **development of sustainable future** on a practical and long-term basis.

A good example of effective cooperation is Hackhaton format produced by Západoslovenská distribučná, a.s. together with Impact Hub. It has been the first challenge of such type and scope on the Slovak energy market and in Central Europe, when energy business provided an analysis of anonymised data from real meter-readings to a free community of startupers. The teams engaged identified motivating benefits for end consumers and created interesting prototypes of a mobile application optimising energy consumption.

Community Development

Employees of ZSE Group have been helping conserve castle ruins across Slovakia for several years. The project, which has been led by Scouting Slovakia for fourteen years, is aimed at sustaining and improving conditions of castle ruins through scout groups and corporate volunteers.

ZSE Group influences its environment by partnerships but also through effort and engagement of employees involved in the **Employee Grant Scheme**. The employees – as volunteers – selflessly help directly in schools, community centres or other organizations with trimming courts and gardens, cleaning parks and public spaces, beautifying interiors and in other various activities.

Nadácia ZSE (ZSE Foundation)

ZSE established the ZSE Foundation which wishes to create environment which is inspiring and innovative. ZSE sees support for public activities as investment and expects to get back the invested effort and sources, bringing real change – in the education system, local communities and within the society.

In 2017 the ZSE Foundation announced the 2nd annual open grant programme **Making regions move**, with the intention of supporting community and cultural life in the West Slovakia municipalities. The programme supported local cultural, social, sport and other events, connecting local communities and contributing to the local life, improving personal relationships, mobilizing communities and connecting generations. The sum of EUR 120,000 was allocated to the Making Regions Move programme and 182 projects were completed.

In 2017, the ZSE Foundation along with **Disabled Aid Association APPA** announced the grant scheme **We will get you to school**, within which we distributed the sum of EUR 24,000 among 3 schools, to build barrier-free premises for their disabled students. In another grant scheme, **We remove barriers**, we chose 8 charity events, proceeds of which were used for improvement of quality of life of disabled people. Financial support of EUR 1,000 was designed for technical organisation of the charity events.

Proceeds could have been used for rehabilitation, medicaments, compensation and medical aids, barrier-free reconstructions of flats and other needs to improve quality of life.

Elektrárňa Piešťany

In 2014 the Company put in operation the renovated Elektrárňa Piešťany, which has been gradually transforming into a unique centre for theme education in the area of science, research and arts. Education consists of two programmes. The first programme focuses on the promotion of science for schools, done mainly through interactive exhibitions accompanied by various workshops, quizzes and competitions.

The second programme is aimed at laic and technical public. In funny ways, students and visitors have an opportunity to get more information about electrical, magnetic, solar and hydro power interactive installations. Energy of creative people and artists is presented through discussions, expositions, concerts and less traditional forms of theatre art.

Annex

Separate Financial Statements

31 December 2017

Contents

Separate Statement of Financial Position

Separate Statement of Financial Position

In thousands of EUR	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	33,835	39,011
Intangible assets	6	298	661
Investment properties	7	10,655	10,407
Investments in subsidiaries, associates and joint ventures	8	286,736	287,337
Loans provided	9	315,000	630,000
Total non-current assets		**646,524**	**967,416**
Current assets			
Inventories	10	27	49
Loans provided and accrued interest on loans receivable within one year	9	319,833	4,833
Trade and other receivables	11	2,112	4,154
Current income tax refund receivable		122	780
Receivables from cash pooling	20	1,296	1,288
Cash and cash equivalents	12	89,963	77,331
Assets held for sale and discontinued operations	30	8,861	-
Total current assets		**422,214**	**88,435**
TOTAL ASSETS		**1,068,738**	**1,055,851**
EQUITY			
Share capital	13	196,969	196,969
Legal reserve fund	14	39,421	39,421
Retained earnings		118,434	98,315
TOTAL EQUITY		**354 824**	**334,705**
LIABILITIES			
Non-current liabilities			
Issued bonds	15	314,396	628,828
Deferred income tax liabilities	16	1,551	1,336
Post-employment defined benefit obligations	17	761	1,260
Other long term employee benefits	18	177	294
Total non-current liabilities		**316,885**	**631,718**
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	15	319,114	4,114
Trade and other payables	19	7,293	13,527
Liabilities from cash pooling	20	68,241	71,787
Liabilities directly associated with assets held for sale and discontinued operations	30	2,381	-
Total current liabilities		**397,029**	**89,428**
TOTAL LIABILITIES		**713,914**	**721,146**
TOTAL LIABILITIES AND EQUITY		**1,068,738**	**1,055,851**

These separate financial statements have been approved for issue by the Board of Directors on 21 March 2018.

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Separate Statement of Profit or Loss and Other Comprehensive Income

Separate Statement of Profit or Loss and Other Comprehensive Income			
In thousands of EUR	**Note**	**2017**	**2016**
Continuing operations			
Revenues	**21**	**18,248**	**18,341**
Raw material, energy and other consumption	22	(1,232)	(1,376)
Employee benefits	23	(7,782)	(7,779)
Depreciation of property, plant and equipment and investment properties	5, 7	(2,437)	(2,564)
Amortisation of intangible assets	6	(153)	(240)
Other operating expenses	24	(9,323)	(11,158)
Dividend income	25	67,175	51,190
Other operating income	26	4,874	5,061
Profit from operations		**69,370**	**51,475**
Finance income / (costs)			
Interest income	28	22,699	22,703
Interest and similar expenses	27	(22,615)	(24,797)
Finance income / (costs), net		**84**	**(2,094)**
Profit before tax		**69,454**	**49,381**
Income tax expense	16	(620)	(324)
Profit for the year from continuing operations		**68,834**	**49,057**
Profit for the year from discontinued operations	30	1,860	1,803
Profit for the year		**70,694**	**50,860**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	17	(140)	342
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	29	(72)
Total other comprehensive income for the year		**(111)**	**270**
Total comprehensive income for the year		**70,583**	**51,130**
Total comprehensive income for the year from continuing operations		68,776	49,197
Total comprehensive income for the year from discontinued operations	30	1,807	1,933

Separate Statement of Changes in Equity

Separate Statement of Changes in Equity In thousands of EUR	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2016	**196,969**	**39,421**	**104,754**	**341,144**
Profit for the year	-	-	50,860	**50,860**
Other comprehensive income for the year	-	-	270	**270**
Total comprehensive income for 2016	**-**	**-**	**51,130**	**51,130**
Dividends declared and paid (Note 13)	-	-	(57,570)	**(57,570)**
Other	-	-	1	**1**
Balance at 31 December 2016	**196,969**	**39,421**	**98,315**	**334,705**
Profit for the year	-	-	70,694	**70,694**
Other comprehensive income for the year	-	-	(111)	**(111)**
Total comprehensive income for 2017	**-**	**-**	**70,583**	**70,583**
Dividends declared and paid (Note 13)	-	-	(50,465)	**(50,465)**
Other	-	-	1	**1**
Balance at 31 December 2017	**196,969**	**39,421**	**118,434**	**354,824**

Separate Statement of Cash Flows

Separate Statement of Cash Flows			
In thousands of EUR	**Note**	**2017**	**2016**
Cash flows from operating activities			
Profit before tax from continuing operations		69,454	49,381
Profit before tax from discontinued operations	30	2,413	2,435
Profit before tax		**71,867**	**51,816**
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	5, 7	3,575	3,607
- Loss / (gain) on disposal of property, plant and equipment	5	124	(197)
- Amortisation of intangible assets	6	394	494
- Interest income		(22,699)	(22,703)
- Interest and similar expense		22,621	24,810
- Dividend income	25	(67,175)	(51,190)
- Other non-cash items		300	(36)
Cash generated from operations before changes in working capital		**9,007**	**6,601**
Changes in working capital:			
- Inventories		22	25
- Trade and other receivables		(950)	(94)
- Receivables and liabilities from cash pooling		(3,554)	47,308
- Trade and other payables		(3,244)	3,352
- Provisions for liabilities and charges and deferred income		114	73
Cash generated from operations before interest and taxes		**1,395**	**57,265**
Interest income received		22,699	22,703
Interest expense paid		(21,979)	(21,868)
Income tax paid	38	(342)	(3,795)
Net cash from operating activities		**1,773**	**54,305**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(6,140)	(3,650)
Dividend income received	25	66,863	51,190
Proceeds from sale of property, plant and equipment and intangible assets	5	61	739
Proceeds from reduction of other capital funds of an associate	8	-	537
Proceeds from liquidation of an associate	8	507	-
Proceeed from sale of other financial investments	8	33	-
Contribution to share capital of a subsidiary	8	-	(5)
Net cash used in investing activities		**61,324**	**48,811**
Cash flows from financing activities			
Dividends paid	13	(50,465)	(57,570)
Net cash used in financing activities		**(50,465)**	**(57,570)**
Net change in cash and cash equivalents		**12,632**	**45,546**
Cash and cash equivalents at the beginning of the year		77,198	31,652
Cash and cash equivalents at the end of the year	**12**	**89,830**	**77,198**

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2017 for Západoslovenská energetika, a.s. (hereinafter "The Company" or "ZSE").

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

Principal activity. The Company provides supporting services for its subsidiaries and other related parties as accounting, controlling and general administration services, as well as in area of finance services, planning, HR services and facility management.

The Company's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s. which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s. r. o. which operates two small hydroelectric plants, ZSE Business Services, s. r. o. which is a trading company and ZSE Development, s.r.o. which is a company providing services. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK2020285256.

Presentation currency. These separate financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2017 and 31 December 2016. The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 13.

List of members of the Company's board of directors and of the supervisory board is publicly available from the Commercial Register operated by the Ministry of Justice of the Slovak Republic at www.orsr.sk.

Number of employees. The Company employed 306 staff on average during 2017, of which 15 were management (2016: 303 employees on average, of which 16 were management).

2 Significant Accounting Policies

Basis of preparation. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Board of Directors may propose to the Company's shareholders to amend the separate financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

These separate financial statements have been prepared in addition to the consolidated financial statements of the Group Západoslovenská energetika, a.s. The separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Company's results and financial position. These consolidated financial statements can be obtained from the Company at its registered address.

Subsidiaries, associates and joint ventures. Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive voting rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Company may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Company from controlling an investee.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Jointly controlled entities ("joint ventures") are those in which the Company shares control of the operations with its joint venture partners.

Investments in subsidiaries, associates and in joint ventures are carried at cost in these separate financial statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the subsidiaries, associates and joint ventures at the time of their acquisition. Impairment losses are recognized using an allowance account. Allowances are recognized to write down the investment to present value of estimated expected future cash flows.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Investment property. Investment property represents the building premises (and related part of the land on which the building stands), which is leased out to subsidiaries. Investment property is carried at cost less accumulated depreciation, calculated using straight line method to depreciate the asset to its residual value, based on estimate useful life of 30 to 50 years, similar to buildings held for own use.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

Discontinued operations. A discontinued operation is a component of the Company that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Revenues, expenses and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Depreciation. Land and construction in progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Economic useful lives in years	
Office buildings and halls	30 – 50 years
Building sites	40 years
Machinery	4 – 20 years
Fixtures, fittings and equipment	4 – 30 years
Vehicles	4 – 15 years
Other non-current tangible assets	4 – 30 years

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Intangible assets. Intangible assets are initially measured at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met: (a) it is technically feasible to complete the software product so that it will be available for use; (b) management intends to complete the software product and use or sell it; (c) there is an ability to use or sell the software product; (d) it can be demonstrated how the software product will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (f) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

At the end of each reporting period management assesses whether there is any indication of impairment of intangible assets. If any such indication exists, management reduces the carrying value to the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

Loans provided. Loans provided are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Inventories. Inventories are stated at the lower of acquisition cost and net realizable value. Weighted average method is used for determination of cost of inventories. The cost of material includes purchase price and directly attributable acquisition costs, such as customs duties or transportation costs. Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) are considered objective evidence that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced using an allowance account, and the amount of the loss is expensed within "other operating expenses".

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against impairment losses within "other operating expenses".

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

R**eceivables from cash pooling.** These receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the share issue.

Dividends. Dividends are recorded in equity in the period in which they are declared. The separate financial statements of the Company are the basis for profit distribution and other appropriations.

Legal reserve fund. The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund were made at 10% of the Company's profit for the year, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

Issued bonds, loans and other borrowings. Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortised cost using the effective interest method. The liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. **Liabilities from cash pooling.** These liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Income taxes. Income taxes have been provided for in the separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within other operating expenses.

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company offsets deferred tax assets and deferred tax liabilities where the Company has a legally enforceable right to set off current tax assets against current tax liabilities and these relate to income taxes levied by the same taxation authority.

Post-employment and other long term employee benefits. The Company contributes to state and private defined contribution pension and social benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are expensed when incurred.

As agreed with the trade unions, the Company also has (a) a post-employment defined benefit obligation to pay one to seven monthly salaries to each employee upon

retirement depending on the number of years worked for the Company and (b) an obligation to pay work and life anniversary long service bonuses. These obligations are recognised as liabilities estimated annually by independent actuaries using the Projected Unit Credit Method.
The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Actuarial remeasurements on post-employment benefits arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise, and are immediately reclassified to retained earnings in the statement of changes in equity. Actuarial remeasurements of the obligation to pay work and life anniversary long service bonuses are recognised in profit or loss for the year as employee benefits expense when incurred. Past service costs, if any, are expensed when incurred.

As explained in IAS 19, Employee Benefits, paragraph 133, the Company does not distinguish current and non-current portions of defined benefit obligations and presents the estimate as a whole within non-current liabilities.

Trade payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within less than one year, or within the entity's operating cycle. All other accounts payable are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Leases. Leases, in which a significant portion of the risks and rewards of the ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (including incentives received from the lessor) are expensed on a straight-line basis over the period of the lease.

Provisions / Contingent liabilities. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax-rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase of the provision due to passage of time is recognised as interest expense. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Contingent liabilities are not recognised in the separate financial statements. They are disclosed in the notes to the separate financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below. The amount of revenue is not considered reliably measurable until all contingencies relating to the sale have been resolved.

The Company provides supporting services for its subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. as accounting, controlling, facility management and general administration services. These services are provided also to the other subsidiaries ZSE Energy Solutions, s.r.o., ZSE Development, s.r.o., ZSE Business Services, s. r. o. and ZSE MVE, s. r. o. and to the shareholder E.ON Slovensko, a.s. as well as other related parties, E.ON Business Services Slovakia spol. s r. o. v likvidácii and E.ON Elektrárne s.r.o.

Raw material and spare parts. The Company sells raw material and spare parts to its subsidiaries. Sale of material is recognized when the Company has delivered the material to the subsidiary and there is no unfulfilled obligation that could affect the subsidiary's acceptance of the material.

Sales of services. Sales of services are recognised in the reporting period in which the services are rendered, by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

Dividend income. Dividend income is recognised when the right to receive the payment is established and inflow of economic benefits is probable.

Interest income. Interest income is recognised on an accrual basis using the effective interest method.

Foreign currency translation. These financial statements are presented in thousands of EUR, which is the Company's presentation currency. The functional currency for the Company is EUR.

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Segment information. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Company in preparing its separate statement of profit or loss and other comprehensive income.

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 33.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014 - 2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

4 New Accounting Pronouncements

Certain new standards, interpretations and amendments have been issued that are mandatory for annual periods beginning on or after 1 January 2018, and which the entity has not early adopted::

IFRS 9, Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances, magnitude, volumes, methodology that exist at that date, the management of the Company is expecting an impact as of 1 January 2018 in the areas of impairment provisions against trade and other receivables and cash in banks. The expected impact is not material.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014, amended on 12 April 2016 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

In accordance with the transition provisions in IFRS 15 the Company has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the separate financial statements for the year ended 31 December 2018 which will be the first year when the Company will apply IFRS 15.

The Company plans to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 will result in changes in accounting policies and adjustments to be recognised in the separate financial statements. Based on the analysis of the Company's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Company is expecting a non-significant impact on its separate financial statements from the adoption of the new standard on 1 January 2018.

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments"* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

The following standards, interpretations and amendments are not expected to have any material impact on the Company's individual financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

- Amendments to IFRS 2, Share-based Payment* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4* (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

- Annual Improvements to IFRSs 2014-2016 Cycle* (issued on 8 December 2016 and effective for annual periods beginning on after 1 January 2018 for amendments to IFRS 1 and IAS 28).

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- Transfers of Investment Property - Amendments to IAS 40* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- IFRS 17, Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

- Prepayment Features with Negative Compensation – Amendments to IFRS 9* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Annual Improvements to IFRSs 2015 - 2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23* (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19* (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

* These new standards, amendments and interpretations have not been endorsed by the European union yet.

5 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Movements in the carrying amount of property, plant and equipment

In thousands of EUR	Land	Buildings	Equipment, vehicles and other assets	Capital work in progress	Total
Cost at 1 January 2016	4,132	35,015	30,376	3,443	72,966
Accumulated depreciation and impairment losses	-	(12,233)	(21,999)	-	(34,232)
Carrying amount at 1 January 2016	**4,132**	**22,782**	**8,377**	**3,443**	**38,734**
Transfer to investment property	-	(427)	-	-	(427)
Additions	-	-	-	4,489	4,489
Transfers	-	479	2,611	(3,090)	-
Depreciation charge	-	(1,195)	(2,048)	-	(3,243)
Disposals	(18)	(504)	(20)	-	(542)
Cost at 31 December 2016	4,114	33,907	32,676	4,842	75,539
Accumulated depreciation and impairment losses	-	(12,772)	(23,756)	-	(36,528)
Carrying amount at 31 December 2016	**4,114**	**21,135**	**8,920**	**4,842**	**39,011**
Transfer to investment property	-	(156)	-	-	(156)
Additions	-	-	-	3,923	3,923
Transfers	26	1,462	2,307	(3,795)	-
Depreciation charge	-	(771)	(2,299)	-	(3,070)
Disposals	(5)	(110)	(70)	(299)	(484)
Transfer to assets held for sale and discontinued operations	-	(1)	(4,495)	(893)	(5,389)
Cost at 31 December 2017	4,135	35,092	23,963	3,778	66,968
Accumulated depreciation and impairment losses	-	(13,533)	(19,600)	-	(33,133)
Carrying amount at 31 December 2017	**4,135**	**21,559**	**4,363**	**3,778**	**33,835**

The Company holds insurance against damages caused by natural disasters up to EUR 243,719 thousand for buildings and up to amount of EUR 36,633 thousand for equipment, fixtures, fittings and other assets (2016: EUR 242,403 thousand and 34,212 thousand, respectively).

The above disclosures include carrying value of assets leased out under operating leases as follows:

Property, plant and equipment includes carrying value of assets leased out under operating leases		
In thousands of EUR	**2017**	**2016**
Equipment, vehicles and other assets	11,277	11,172
Total carrying value of assets leased out under operating leases	**11,277**	**11,172**

Rental income is presented in Note 26. Future rental income due within one year from non-cancellable operating leases is EUR 224 thousand (2016: EUR 268 thousand), amount due from two to five years is EUR 0 thousand (2016: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2016: EUR 0 thousand).

The proceeds from disposal of property, plant and equipment were as follows:

The proceeds from disposal of property, plant and equipment		
In thousands of EUR	**2017**	**2016**
Net book value of disposals	484	542
(Loss) / gain on disposal of property, plant and equipment	(124)	197
Other non-cash movements	(299)	-
Proceeds from disposals	**61**	**739**

6 Intangible Assets

Movements in the carrying amount of intangible assets were as follows:

Movements in the carrying amount of intangible assets			
In thousands of EUR	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2016	27,728	281	28,009
Accumulated amortisation and impairment losses	(26,745)	-	(26,745)
Carrying amount at 1 January 2016	**983**	**281**	**1,264**
Additions	-	(109)	(109)
Transfers	83	(83)	-
Amortisation charge	(494)	-	(494)
Cost at 31 December 2016	27,811	89	27,900
Accumulated amortisation and impairment losses	(27,239)	-	(27,239)
Carrying amount at 31 December 2016	**572**	**89**	**661**

Movements in the carrying amount of intangible assets			
In thousands of EUR	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2017	27,811	89	27,900
Accumulated amortisation and impairment losses	(27,239)	-	(27,239)
Carrying amount at 1 January 2017	**572**	**89**	**661**
Additions	-	128	128
Transfers	102	(102)	-
Amortisation charge	(394)	-	(394)
Transfer to assets held for sale and discontinued operations	(80)	(17)	(97)
Cost at 31 December 2017	27,075	98	27,173
Accumulated amortisation and impairment losses	(26,875)	-	(26,875)
Carrying amount at 31 December 2017	**200**	**98**	**298**

7 Investment Properties

The Company leases out part of its administrative and operational buildings under operating leases mainly to its subsidiaries. Movements in the carrying amount of the investment properties were as follows:

Movements in the carrying amount of the investment properties		
In thousands of EUR	**2017**	**2016**
Cost at 1 January	15,158	14,103
Accumulated depreciation and impairment losses	(4,751)	(4,233)
Carrying amount at 1 January	**10,407**	**9,870**
Transfer from property, plant and equipment to investment property	156	427
Additions	597	474
Depreciation charge	(505)	(364)
Cost at 31 December	15,777	15,158
Accumulated depreciation and impairment losses	(5,122)	(4,751)
Carrying amount at 31 December	**10,655**	**10,407**

The Company's management estimates that fair value of the investment properties at the balance sheet date is not materially different from their carrying amount.

Rental income is presented in Note 26. Future rental income due within one year from non-cancellable operating leases is EUR 482 thousand (2016: EUR 1,845 thousand), amount due from two to five years is EUR 1,279 thousand (2016: EUR 1,561 thousand) and the amount due after five years is EUR 123 thousand (2016: EUR 159 thousand).

8 Investments in Subsidiaries, Associates and Joint Ventures

Investments in Subsidiaries, Associates and Joint Ventures		
In thousands of EUR	**2017**	**2016**
Total investments at the beginning of the year	**287,337**	**290,106**
Additions	-	5
Disposals	(600)	(537)
Impairment	-	(2,238)
Other	(1)	1
Total investments at the end of the year	**286,736**	**287,337**

The additions during the year 2016 represent the set-up of the subsidiary ZSE Business Services, s.r.o. on 15 August 2016, where the Company is sole shareholder. This subsidiary was incorporated in the Commercial Register on 1 September 2016.

Disposals during the year 2016 represent reduction of other capital funds of the associate E.ON Business Services Slovakia spol. s r. o. v likvidácii. Disposals during the year 2017 represent the completion of liquidation of the associate E.ON Business Services Slovakia spol. s r. o. v likvidácii on 30 November 2017 and the sale of the whole ownership interest held in company EFR CEE Szolgáltató Kft., Hungary. All of the subsidiaries, associates and joint ventures were incorporated and operate in the Slovak Republic.

Investments in Subsidiaries, Associates and Joint Ventures				
In thousands of EUR	**%** *	**Activities**	**2017**	**2016**
Západoslovenská distribučná, a.s.	100	Distribution of electricity	276,684	276,684
ZSE Energia, a.s.	100	Trade in electricity / gas	6,725	6,725
ZSE Energy Solutions, s.r.o.	100	Engineering	2,200	2,200
ZSE MVE, s. r. o.	11,3**	Electricity production	1	1
ZSE Development, s.r.o.	100	Trading activities	564	564
ZSE Business Services, s. r. o.	100	Services	5	5
Total investments in subsidiaries			**286,179**	**286,179**
E.ON Business Services Slovakia spol. s r. o. v likvidácii	49	IT services	-	568
Total investments in associates			**-**	**568**
Energotel, a.s	20	Telecommunication services	525	525
Total investments in joint ventures			**525**	**525**
Other			32	65
Total investments in subsidiaries, associates and joint ventures			**286,736**	**287,337**

* Ownership interest and voting rights held.

** The Company directly owns only 11.3% in ZSE MVE, s. r. o. but has in total 100% control over this company through its subsidiary ZSE Energia, a.s. (2016: ZSE Energy Solutions, s.r.o.) which holds the remaining 88.7% in ZSE MVE, s. r. o. Therefore, ZSE MVE, s. r. o. was classified as subsidiary in these separate financial statements.

9 Loans Provided

An overview of loans provided is as follows:

Loans Provided		
In thousands of EUR	**2017**	**2016**
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	-	315,000
Loan 2 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Total loans provided – non-current	**315,000**	**630,000**
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	315,000	-
Accrued interest on loans receivable within one year	4 833	4 833
Total loans provided – current	**319,833**	**4,833**
Total loans provided	**634,833**	**634,833**

Both loans provided to the subsidiary Západoslovenská distribučná, a.s. are in amount of EUR 315,000 thousand each. The loan 1 is due on 1 October 2018 and carries a coupon of 3.04% p.a. The loan 2 is due on 1 October 2023 and carries a coupon of 4.14% p.a. The loans are neither past due nor impaired and management of the Company considers this related party as creditworthy without an increased credit risk. The potential effect of netting arrangements is disclosed in Note 34.

10 Inventories

The inventory items included material and spare parts and are shown after provision for slow-moving materials and spare parts of EUR 1 thousand (2016: EUR 1 thousand). The cost of inventories recognized as expense and included in 'Raw materials, energy and other consumption' is disclosed in Note 22.

11 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2017**	**2016**
Trade receivables	1,800	3,804
Less impairment provision for trade receivables	(134)	(87)
Trade receivables, net	**1,666**	**3,717**
Prepayments	446	437
Total trade and other receivables	**2,112**	**4,154**

Movements in the impairment provision for trade receivables are as follows:

Movements in the impairment provision for trade receivables		
In thousands of EUR	**2017**	**2016**
Provision for impairment at 1 January	**87**	**81**
Impairment loss expense	47	6
Provision for impairment at 31 December	**134**	**87**

Impairment provision for trade receivables is calculated in the amount of 100% of the value of individual receivables from companies in bankruptcy and receivables subject to court proceedings. Impairment provision of other receivables is calculated based on ageing analysis of individual receivables and the type of the customer.

The credit quality of trade receivables is as follows:

The credit quality of trade receivables		
In thousands of EUR	**2017**	**2016**
Neither past due nor impaired		
- collected by 31 January after the reporting period	307	2,641
- not collected by 31 January after the reporting period and not overdue	1,334	765
- amounts that became overdue after the reporting period	1	20
Total neither past due nor impaired	1,642	3,426
Individually impaired		
1 to 30 days past due	28	215
31 to 60 days past due	1	72
61 to 90 days past due	-	2
91 to 120 days past due	17	10
121 to 360 days past due	19	-
Over 360 days past due	93	79
Total individually impaired before provision for impairment	158	378
Less provision for impairment	(134)	(87)
Total trade receivables, net of provision	**1,666**	**3,717**

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 38.

12 Cash and Cash Equivalents

Cash and Cash Equivalents		
In thousands of EUR	**2017**	**2016**
Current accounts with banks	89,963	77,331
Total cash and cash equivalents in the statement of financial position	**89,963**	**77,331**
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	**89,830**	**77,198**

The Company has a concentration of cash and cash equivalents balances towards 4 banks (2016: 4 banks).

The credit quality of cash and cash equivalents is as follows:

The credit quality of cash and cash equivalents		
In thousands of EUR	**2017**	**2016**
Neither past due nor impaired		
Credit rating A1 by Moody's	63	19
Credit rating A2 by Moody's	54,007	65,085
Credit rating A3 by Moody's	35,890	-
Credit rating Baa1 by Moody's	-	12,224
Credit rating BBB+ by Fitch	-	3
Credit rating A- by Fitch	3	-
Total cash and cash equivalents	**89,963**	**77,331**

As at 31 December 2017, the Company has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2016: EUR 75,000 thousand). As at 31 December 2017 the Company has drawn EUR 0 thousand from these facilities (2016: EUR 0 thousand).

As at 31 December 2017, the Company issued guarantees in favour of its subsidiary ZSE Energia, a.s. in total amount of EUR 8,341 thousand (2016: 8,151 thousand). The fair value of issued guarantees is insignificant.

13 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2016: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the reporting entity. The entity's governance structure dictates that the entity's strategic plan be approved by representatives of both E.ON and the Slovak government. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while contractual restrictions exist for transfer of shares to parties not under control of existing shareholders.

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 50,465 thousand or EUR 8.50 per share (2016: dividends of EUR 57,570 thousand or EUR 9.70 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 118,434 thousand (2016: EUR 98,315 thousand).

14 Legal Reserve Fund

The legal reserve fund represents appropriations of profits of the Company required by Slovak legislation. The Company is obliged to appropriate at least 10% of its profit until the legal reserve fund achieves at least 20% of the Company's share capital. This fund is not distributable and exists to cover future losses.

15 Issued Bonds

The issued bonds (ISIN: XS0979598207) of EUR 315,000 thousand are due on 14 October 2018 and carry a coupon of 2.875% p.a. The series two of issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.000% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

Amortised cost carrying value of the bonds is as follows:

Amortised cost carrying value of the bonds

In thousands of EUR	2017	2016
Issued bonds – non-current	314,396	628,828
Total issued bonds – non-current	**314,396**	**628,828**
Issued bonds – current	315,000	-
Accrued interest on issued bonds payable within one year and amortised transaction costs of the bonds	4,114	4,114
Total issued bonds – current, accrued interest on issued bonds payable within one year and amortised transaction costs of the bonds	**319,114**	**4,114**
Amortised cost carrying value of the bonds	**633,510**	**632,942**

16 Income Taxes

Income tax expense comprises the following:

Income Taxes

In thousands of EUR	2017	2016
Current tax at standard rate of 21% (2016: 22%)	1,000	1,176
Deferred tax	173	(220)
Income tax expense for the year	**1,173**	**956**
Income tax expense for the year from continuing operations	620	324
Income tax expense for the year from discontinued operations	553	632

In 2017, the applicable standard income tax rate was 21% (2016: 22%). A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates

In thousands of EUR	2017	2016
Profit before tax from continuing operations	69,454	49,381
Profit before tax from discontinued operations	2,413	2,435
Profit before tax	**71,867**	**51,816**
Theoretical tax charge at applicable tax rate of 21% (2016: 22%)	15,092	11,400
Non-deductible expenses / (non-taxable income) for which deferred tax was not recognised		
- dividend income not subject to tax	(14,107)	(11,262)
- expenses not deductible for tax purposes	159	954
Effect on deferred tax of change in tax rate to 21% from 1 January 2017	-	(64)
Other	29	(72)
Income tax expense for the period	**1,173**	**956**

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2017, that will become current tax in 2018, will be settled in 2019 upon filing the 2018 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the taxes relate to the same fiscal authority.

Deferred taxes are attributable to the following temporary differences:

Deferred taxes are attributable to the following temporary differences

In thousands of EUR	2017	2016
Differences between tax base and carrying value of property, plant and equipment	2,344	2,464
Post-employment defined benefit obligation	(160)	(265)
Other long term employee benefits	(37)	(62)
Other liabilities	(515)	(722)
Provision for impairment of trade receivables	(11)	(3)
Other	(70)	(76)
Total net deferred tax liability	**1,551**	**1,336**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR 29 thousand (from this EUR 15 thousand is related to continuing operations and EUR 14 thousand to discontinued operations) (2016: EUR (72) thousand, from this EUR (38) thousand is related to continuing operations and EUR (34) thousand to discontinued operations) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

In November 2016, the Slovak parliament enacted a tax on dividend income from profits earned on or after 1 January 2017. The Company has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future and (b) the tax is not applicable to dividends from Slovak subsidiaries, joint ventures and associates. In addition, the Company is able to control the timing of the reversal of such temporary differences and does not intend to reverse them in the foreseeable future, eg through taxable dividend income from subsidiaries.

17 Post-Employment Defined Benefit Obligations

As agreed with the trade unions, the Company has a post-employment defined benefit obligation to pay one to seven monthly salaries to each employee upon retirement depending on the numbers of years worked for the Company. The movements in the present value of defined benefit obligation are:

The movements in the present value of defined benefit obligation

In thousands of EUR	2017	2016
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**1,260**	**1,552**
Current service cost from continuing operations	53	34
Interest cost from continuing operations	7	14
Past service costs due to changes in the defined benefit plan rules from continuing operations	-11	-
Total expense from continuing operations (Note 23)	**49**	**48**
Current service cost from discontinued operations	48	32
Interest cost from discontinued operations	6	13
Past service costs due to changes in the defined benefit plan rules from discontinued operations	-11	-
Total expense from discontinued operations	**43**	**45**
Total expense	**92**	**93**
Actuarial remeasurements from continuing operations:		
- attributable to changes in financial assumptions	45	16
- attributable to changes in demographic assumptions	-	(182)
- attributable to experience adjustments	28	(12)
Total actuarial remeasurements from continuing operations recognised in other comprehensive income	73	(178)
Actuarial remeasurements from discontinued operations:		
- attributable to changes in financial assumptions	41	15
- attributable to changes in demographic assumptions	-	(168)
- attributable to experience adjustments	26	(11)
Total actuarial remeasurements from discontinued operations recognised in other comprehensive income	67	(164)
Total actuarial remeasurements recognised in other comprehensive income	**140**	**(342)**
Benefits paid during the year	(29)	(43)
Transfer to liabilities directly associated with assets held for sale and discontinued operations (Note 30)	(702)	-
Present value of unfunded post-employment defined benefit obligations at the end of the year	**761**	**1,260**

The principal actuarial assumptions were as follows:

The principal actuarial assumptions In thousands of EUR	2017	2016
Number of employees at 31 December	314	304
Staff turnover	4.55% p.a.	4.55% p.a.
Expected salary increases short-term	5.00% p.a.	2.50% p.a.
Expected salary increases long-term	4.00% p.a.	3.00% p.a.
Discount rate	1.30% p.a.	1.10% p.a.

In 2016, Slovak legislation has changed and the retirement age will depend on expected longevity of the population. This effect, along with staff turnover, resulted in an actuarial gain presented within actuarial remeasurements attributable to changes in demographic assumptions. In 2016, Slovak legislation also removed a cap on social security tax payable on the post-employment benefits with effect from 2017, which in combination with salary level assumptions resulted in an actuarial loss presented above as a loss attributable to changes in demographic assumptions. Management applied its judgement in determining that the changes in legislation are not past service costs caused by changes in the benefit plan rules and thus recognised the effects in other comprehensive income as an actuarial remeasurement caused by changes in retirement age, salary level and social security tax assumptions.

18 Other Long Term Employee Benefits

The Company makes EUR 1,400 (2016: EUR 1,700) payment to each employee at the age of 50, subject to 5 year continuous service (2016: 10 years) vesting condition. In addition, the Company pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2016: between EUR 370 to EUR 1,150).

The liability for other long-term employee benefits was estimated using the Projected Unit Credit Method.

19 Trade and Other Payables

Trade and Other Payables In thousands of EUR	2017	2016
Trade payables	39	5,563
Other accrued liabilities	2,225	3,299
Other financial liabilities	2,342	1,322
Total financial instruments within trade and other payables	**4,606**	**10,184**
Employee benefits payable	299	429
Social security on employee benefits	187	337
Accrued staff costs	1,154	1,736
Advance payments	16	14
Value added tax payable	831	589
Other payables	200	238
Total trade and other payables	**7,293**	**13,527**

The Company had overdue trade payables of EUR 13 thousand (2016: EUR 93 thousand).

20 Receivables and Liabilities from Cash Pooling

Receivables and Liabilities from Cash Pooling

In thousands of EUR	**2017**	**2016**
ZSE MVE, s. r. o.	1,229	1,271
ZSE Business Services, s. r. o.	67	17
Total receivables from cash pooling	**1,296**	**1,288**
ZSE Energia, a.s.	13,475	38,500
ZSE Energy Solutions, s.r.o.	2,064	1,727
ZSE Development, s.r.o.	556	564
E.ON Business Services Slovakia spol. s r. o. v likvidácii	-	1,179
Západoslovenská distribučná, a.s.	52,146	29,817
Total liabilities from cash pooling	**68,241**	**71,787**

The Company has concluded with its subsidiaries and associate a cash pooling agreement. Based on this agreement the available cash is managed by the Company. If the case of additional financing needs the cash from the cash pool of the Company is made available to subsidiaries and associate. The interest rate on receivables from cash pooling was 0.4% p.a. (2016: 0.4% p.a.). The interest rate on liabilities from cash pooling was 0.05% p.a. (2016: 0.05% p.a.).

The cash pooling receivables are neither past due nor impaired and are presented above in descending order of their credit quality.

21 Revenues

Revenues comprise the following:

Revenues

In thousands of EUR	**2017**	**2016**
Services provided to subsidiaries, associates and to the shareholder	16,850	17,251
Other revenues	1,398	1,090
Total revenues	**18,248**	**18,341**

22 Raw Materials, Energy and Other Consumption

The following amounts have been charged to consumption of material, energy and other consumption:

Raw Materials, Energy and Other Consumption

In thousands of EUR	**2017**	**2016**
Fuel consumption	1	(36)
Energy consumption	962	1,035
Consumption of other materials and spare parts	269	377
Total raw materials, energy and other consumption	**1,232**	**1,376**

23 Employee Benefits

Employee Benefits		
In thousands of EUR	**2017**	**2016**
Wages and salaries	4,873	4,648
Defined contribution pension costs	786	677
Post-employment defined benefit plan expense (Note 17)	49	48
Other long-term employee benefit plans - current service and interest cost	23	-
Actuarial remeasurements of other long-term employee benefit plans	9	24
Other social costs	2,042	2,382
Total employee benefits expense	**7,782**	**7,779**

24 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2017**	**2016**
Information technology and software maintenance costs	599	498
Repairs and maintenance costs	630	1,458
Operating lease expense	1,222	1,195
Postal and telecommunication services	3	(31)
Security services	937	781
Advertising services	392	533
Marketing	3	3
Facility management expenses	982	1,013
Project management expenses	1,377	734
Operation and maintenance of telecommunication network	668	678
Travel expenses	96	106
Gifts	325	450
Insurance	55	144
Advisory services	479	768
Statutory audit	112	115
Non-audit services provided by the audit firm	20	83
Other operating expenses	469	245
Property and motor vehicle tax	143	143
Other purchased services	811	2,242
Total other operating expenses	**9,323**	**11,158**

The PwC network provided the following non-audit services during the current accounting period:

- consulting services under the Article 5 (1) (a) (i) of Regulation (EU) No. 537/2014 which are allowed by paragraph 33 of the Act No. 423/2015 in amount of EUR 17 thousand for the ZSE Group of which EUR 7 thousand was for the Company;
- services in area of job grading and benchmarking in amount EUR 12 thousand for the Company, which was not a cost control service;
- trainings in amout of EUR 1 thousand for the Company.

The above-mentioned services were approved by the Audit Committee of the Company.

25 Dividend Income

Dividend Income		
In thousands of EUR	**2017**	**2016**
Západoslovenská distribučná, a.s.	55,294	38,328
ZSE Energia, a.s.	11,098	12,627
E.ON Business Services Slovakia spol. s r. o. v likvidácii	-	218
Energotel, a.s.	782	-
Other	1	17
Total dividend income	**67,175**	**51,190**

26 Other Operating Income

Other Operating Income		
In thousands of EUR	**2017**	**2016**
Operating lease income (Note 5 and 7)	4,167	4,091
(Loss) / gain on disposal of property, plant and equipment	(121)	75
Grants	769	757
Other	59	138
Total other operating income	**4,874**	**5,061**

27 Interest and Similar Expenses

Interest and Similar Expenses		
In thousands of EUR	**2017**	**2016**
Interest expense on bonds	21,656	21,656
Amortisation of bonds transaction costs and similar costs	667	677
Other interest expense	47	64
Impairment of investments in subsidiaries, associates and joint ventures (Note 8)	-	2,238
Other finance costs	245	162
Total interest and similar expenses	**22,615**	**24,797**

28 Interest Income

Interest Income		
In thousands of EUR	**2017**	**2016**
Interests income from loans to Západoslovenská distribučná, a.s.	22,617	22,617
Other interest income	82	86
Total interest income	**22,699**	**22,703**

29 Segment Reporting

The operating segments are those used by the Board of Directors to manage the business of the Company and its subsidiaries (together the "Group"), allocate resources and make strategic decisions. The segments are therefore reported for the Group as a whole; management does not review component financial information of the Company standing alone. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by Regulatory Office for Network Industries "RONI".

Electricity and gas supply. Supply of electricity and gas to wholesale and retail customers in Slovakia. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI. As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2016: 94%) of the Group's EBITDA and 94% of the Group's EBIT (2016: 93%) were generated from sales to customers who are subject to the price regulation.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric plants, trading activities and generates also some external revenues from projecting and engineering activities in investment construction for third parties.

Reportable segments information for 2017 is as follows:

Reportable segments information for 2017

In thousands of EUR	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total Group
Revenue from external customers	310,639	753,071	1,287	-	**1,064,997**
Inter-segment revenues	191,546	27,536	38,768	(257,850)	-
Total segment revenues	**502,185**	**780,607**	**40,055**	**(257,850)**	**1,064,997**
Purchases of electricity and related fees	(243,355)	(652,915)	(3,330)	216,453	**(683,147)**
Purchases of natural gas	-	(90,183)	-	64	**(90,119)**
Employee benefits expense	(42,198)	(8,336)	(13,028)	12	**(63,550)**
Other operating expenses	(61,044)	(17,140)	(20,149)	45,289	**(53,044)**
Share of profit of equity method investees	-	-	67,175	(66,413)	**762**
Other operating income	1,917	2,112	5,096	(2,619)	**6,506**
Own work capitalized	17,815	-	-	(171)	**17,644**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**175,320**	**14,145**	**75,819**	**-65,235**	**200,049**
Depreciation of property, plant and equipment	(65,503)	(12)	(3,644)	24,329	(44,830)
Amortisation of intangible assets	(2,627)	(1,314)	(394)	72	(4,263)
Earnings before interest and taxes (EBIT)	**107,190**	**12,819**	**71,781**	**(40,834)**	**150,956**
Capital expenditures	**74,812**	**2,029**	**4,648**	**(548)**	**80,941**

Reportable segments information for 2016 is as follows:

Reportable segments information for 2016

In thousands of EUR	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total Group
Revenue from external customers	275,875	723,197	1,634	-	**1,000,706**
Inter-segment revenues	199,255	24,547	38,558	(262,360)	-
Total segment revenues	**475,130**	**747,744**	**40,192**	**(262,360)**	**1,000,706**
Purchases of electricity and related fees	(223,656)	(634,564)	(3,015)	220,303	**(640,932)**
Purchases of natural gas	-	(74,638)	-	72	**(74,566)**
Employee benefits expense	(39,965)	(7,396)	(12,862)	10	**(60,213)**
Other operating expenses	(62,671)	(17,317)	(22,193)	45,672	**(56,509)**
Share of profit of equity method investees	-	-	51,190	(50,955)	**235**
Other operating income	1,948	2,672	5,269	(2,474)	**7,415**
Own work capitalized	18,443	-	-	(82)	**18,361**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**169,229**	**16,501**	**58,581**	**(49,814)**	**194,497**
Depreciation of property, plant and equipment	(67,487)	(7)	(3,679)	26,213	(44,960)
Amortisation of intangible assets	(2,638)	(770)	(494)	72	(3,830)
Earnings before interest and taxes (EBIT)	**99,104**	**15,724**	**54,408**	**(23,529)**	**145,707**
Capital expenditures	**71,980**	**2,087**	**4,854**	**(585)**	**78,336**

The total segment items are measured using the entity's accounting policies for its external reporting and hence, the only reconciling item from segment information to the Company's amounts under IFRS are eliminations of effects of consolidating subsidiaries.

Reconciliation of EBIT for all segments to profit before tax is as follows:

Reconciliation of EBIT for all segments to profit before tax

In thousands of EUR	2017	2016
Total EBIT for all operating segments	**150,956**	**145,707**
Interest income of the Group	84	89
Interest and similar expense of the Group	(21,106)	(23,795)
Elimination of impact of consolidation of subsidiaries	(58 067)	(70,185)
Profit before tax of the Company	**71,867**	**51,816**

Reconciliation of capital expenditures for all operating segments to payments for purchases of property, plant and equipment and intangible assets is as follows:

Reconciliation of capital expenditures for all operating segments to payments for purchases of property, plant and equipment and intangible assets

In thousands of EUR	2017	2016
Total capital expenditures for all operating segments	**80,941**	**78,336**
Assets acquired but not paid for	(27,518)	(17,575)
Payments for assets acquired in prior periods	9,087	8,082
Payments for purchases of property, plant and equipment and intangible assets	**62,510**	**68,843**

Entity wide information. Revenue is analysed by type of product or service in Note 21. Substantially all of the Company's revenues are from customers in the Slovak Republic and all of the Company's property, plant and equipment and intangible assets are located in the Slovak Republic.

30 Assets Held for Sale and Discontinued Operations

In order to strengthen the overall independence of the subsidiary Západoslovenská distribučná, a.s. as the distribution system operator, the extraordinary General Meeting of shareholders in the Company on its session held on 18 December 2017 approved several organisational changes in the Company effective from 1 January 2018. As part of these organisational changes, the Company will transfer the Facility Management Department performing facility management services for the ZSE Group into the subsidiary Západoslovenská distribučná, a.s. within the sale of part of the business.

The Company will also transfer activities and tasks of organisational units dealing with occupational health and safety, protection of environment, crisis management, administration support of IT and telco activities, logistics and travel management performed by the Company for the ZSE Group into the subsidiary Západoslovenská distribučná, a.s., and activities and tasks of organisational units dealing with billing, cash collection and accounts receivable, customer complaints, and system and quality support performed by the Company into subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The transfer of employees will also be part of all organisational changes. The completion of the transaction is expected during the year 2018.

Based on the decision of the extraordinary General Meeting of shareholders of the Company dated 18 December 2017, the assets and liabilities of the above stated organisational units of the Company were presented as held for sale in these separate financial statements.

Assets classified as held for sale and discontinued operations are as follows:

Assets classified as held for sale and discontinued operations

In thousands of EUR	2017	2016
Property, plant and equipment	5,389	-
Intangible assets	97	-
Deferred income tax receivables	71	-
Trade and other receivables	3,304	-
Total	**8,861**	**-**

Liabilities directly associated with assets classified as held for sale and discontinued operations are as follows:

Liabilities directly associated with assets classified as held for sale and discontinued operations

In thousands of EUR	2017	2016
Post-employment defined benefit obligations	702	-
Other long term employee benefits	181	-
Trade and other payables	1,498	-
Total	**2,381**	**-**

An analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or the disposal group is as follows:

An analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or the disposal group		
In thousands of EUR	**2017**	**2016**
Discontinued operations		
Revenues	**20,898**	**20,659**
Raw material, energy and other consumption	(1,621)	(1,639)
Employee benefits	(4,986)	(4,767)
Depreciation of property, plant and equipment	(1,138)	(1,043)
Amortisation of intangible assets	(241)	(254)
Other operating expenses	(10,544)	(10,679)
Other operating income	51	171
Profit from operations	**2,419**	**2,448**
Finance income / (costs)		
Interest and similar expenses	(6)	(13)
Finance costs, net	**(6)**	**(13)**
Profit before tax	**2,413**	**2,435**
Income tax expense	(553)	(632)
Profit for the year from discontinued operations	**1,860**	**1,803**
Other comprehensive income		
Items that will not be subsequently reclassified to profit or loss		
Actuarial remeasurements of post-employment defined benefit obligations	(67)	164
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	14	(34)
Total other comprehensive income for the year from discontinued operations	**(53)**	**130**
Total comprehensive income for the year from discontinued operations	**1,807**	**1,933**

An analysis of the cash flows of discontinued operations is as follows:

An analysis of the cash flows of discontinued operations		
In thousands of EUR	**2017**	**2016**
Cash flows from operating activities	4,378	1,322
Cash flows from investing activities	(850)	(451)
Cash flows from financing activities	-	-
Total cash flows	**3,528**	**871**

31 Financial Risk Management

The Company's activities are exposing it to certain financial risks: market risks, credit risk and liquidity risk. The Company's principal financial instruments comprise trade receivables and payables, cash and cash equivalents, issued bonds, loans provided, receivables and payables from cash pooling, and short-term bank deposits.

Foreign exchange risk. The Company operates mainly in the domestic market, and most of its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the Company's operations as it has only an immaterial volume of transactions in currency other than EUR. A reasonably possible change in spot exchange rate of EUR against foreign currencies as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year.

Equity price risk. The Company is not exposed to significant equity price risk because it does not have material financial investments in equities carried at fair value.

Interest rate risk. The Company does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year.

Commodity price risk. The Company is not exposed to significant commodity price risk because it does not have material commodity contracts.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Exposure to credit risk arises as a result of the Company's sales of services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to customers, including outstanding receivables and transactions made. From 1 July 2007 after legal unbundling, the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. are the main customers of the Company.

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment.

The credit quality of outstanding balances with banks is presented in Note 12 and credit quality information about trade receivables is included in Note 11.

The maximum exposure to credit risk is limited by the carrying value of receivables. As of 31 December 2017 and 2016, there is a significant concentration of credit risk with respect of receivables of the Company towards Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The Company manages this exposure through cash-pooling agreements. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Company relies on liquidity of financial markets and its ability to refinance its outstanding bonds in the medium term.

The Company regularly monitors its liquidity position and uses cash pooling with subsidiaries to optimize the use of cash balances within the Group. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 60 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Company, and (b) expected future cash outflows securing operation of the Company and leading to settlement of all liabilities of the Company, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Company to make short-term bank deposits.

The table below analyses the Company's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date.

The maturity analysis is as follows at 31 December 2017:

The maturity analysis at 31 December 2017

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	315,000	-	315,000	**630,000**
Issued bonds – future interest payments	-	-	21,656	50,400	12,600	**84,656**
Trade payables (Note 19)	33	6	-	-	-	**39**
Other accrued liabilities (Note 19)	238	1,391	346	38	212	**2,225**
Other financial liabilities (Note 19)	-	2,342	-	-	-	**2,342**
Liabilities from cash pooling (Note 20)	68,241	-	-	-	-	**68,241**
Issued guarantees	8,341	-	-	-	-	**8,341**
Total future payments, including future principal and interest payments	**76,853**	**3,739**	**337,002**	**50,438**	**327,812**	**795,844**

The maturity analysis is as follows at 31 December 2016:

The maturity analysis at 31 December 2016

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	-	21,656	59,457	25,200	**106,313**
Trade payables (Note 19)	4,140	1,423	-	-	-	**5,563**
Other accrued liabilities (Note 19)	864	1,636	420	157	222	**3,299**
Other financial liabilities (Note 19)	-	1,322	-	-	-	**1,322**
Liabilities from cash pooling (Note 20)	71,787	-	-	-	-	**71,787**
Issued guarantees	8,151	-	-	-	-	**8,151**
Total future payments, including future principal and interest payments	**84,942**	**4,381**	**22,076**	**374,614**	**340,422**	**826,435**

32 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 354,824 thousand at 31 December 2017 (2016: EUR 334,705 thousand). In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

In managing the capital, the Company's management focuses on maximizing return on invested capital.

The Company is not subject to any externally imposed regulatory capital requirements.

33 Net Debt Reconciliation

The table below sets out an analysis of net debt and the movements in net debt for each of the periods presented:

An analysis of net debt and the movements in net debt

In thousands of EUR	Issued bonds
At 1 January 2016	**632,301**
Interest expense paid	(21,656)
Interest expense on bonds	21,656
Amortisation of bonds transaction costs and similar costs	641
At 31 December 2016	**632,942**
Interest expense paid	(21,656)
Interest expense on bonds (Note 27)	21,656
Amortisation of bonds transaction costs and similar costs	568
At 31 December 2017 (Note 15)	**633,510**

34 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
ASSETS						
Loans provided	634,833	-	634,833	52,146	-	582,687
Receivables from cash pooling	1,296	-	1,296	1,296	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**636,129**	**-**	**636,129**	**53,442**	**-**	**582,687**
LIABILITIES						
Liabilities from cash pooling	68,241	-	68,241	53,442	-	14,799
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**68,241**	**-**	**68,241**	**53,442**	**-**	**14,799**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2016

In thousands of EUR	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (c) - (d) - (e)
ASSETS						
Loans provided	634,833	-	634,833	29,817	-	605,016
Receivables from cash pooling	1,288	-	1,288	1,288	-	-
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**636,121**	**-**	**636,121**	**31,105**	**-**	**605,016**
LIABILITIES						
Liabilities from cash pooling	71,787	-	71,787	31,105	-	40,682
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**71,787**	**-**	**71,787**	**31,105**	**-**	**40,682**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Company has master netting arrangements, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty.

35 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety

Assets and liabilities not measured at fair value but for which fair value is disclosed
Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

Fair Value Disclosures

In thousands of EUR	31 December 2017 Level 1 fair value	Level 2 fair value	Carrying value	31 December 2016 Level 1 fair value	Level 2 fair value	Carrying value
ASSETS						
Loans provided including accrued interest (Note 9)	-	695,066	634,833	-	714,231	634,833
Trade receivables, net (Note 11)	-	1,666	1,666	-	3,717	3,717
Receivables from cash pooling (Note 20)	-	1,296	1,296	-	1,288	1,288
Cash and cash equivalents (Note 12)	-	89,963	89,963	-	77,331	77,331
TOTAL ASSETS	**-**	**787,991**	**727,758**	**-**	**796,567**	**717,169**
LIABILITIES						
Issued bonds (Note 15)	695,066	-	633,510	714,231	-	632,942
Trade payables (Note 19)	-	39	39	-	5,563	5,563
Other accrued liabilities (Note 19)	-	2,225	2,225	-	3,299	3,299
Other financial liabilities (Note 19)	-	2,342	2,342	-	1,322	1,322
Liabilities from cash pooling (Note 20)	-	68,241	68,241	-	71,787	71,787
TOTAL LIABILITIES	**695,066**	**72,847**	**706,357**	**714,231**	**81,971**	**714,913**

The fair value of provided loans (Note 9) was estimated based on the price development of the related issued bonds on the financial market.

The fair value of issued bonds was determined at the quoted market price of the bonds (Note 15).

The fair values of other financial assets and liabilities approximate their carrying amounts.

36 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. All of the Company's financial assets fall in the loans and receivables category. All of the Company's financial liabilities were carried at amortised cost.

37 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2012 to 2017 remain open to tax inspection.

Capital expenditure commitments. At 31 December 2017, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 1,996 thousand (2016: EUR 1,359 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 0 thousand (2016: EUR 50 thousand).

Operating lease commitments. The future aggregate minimum lease payments under non-cancellable operating leases are due as follows:

Operating lease commitments

In thousands of EUR	2017	2016
No later than one year	2,568	2,812
Later than one year and no later than five years	5,791	6,737
Later than five years	748	1,395
Total	**9,107**	**10,944**

Operating lease expense for the year is disclosed in Note 24.

38 Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes 1 and 13: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, other purchases from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

The related party transactions and outstanding balances were as follows for 2017:

Balances and Transactions with Related Parties

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Subsidiaries (Note 8)	Associate (Note 8)	Joint venture (Note 8)
Revenue	32	268	168	14	63,513	-	966
Purchases and expenses	-	-11	658	138	2,732	-	1,905
Receivables other than taxes	-	14	51	3	639,443	-	-
Payables other than taxes	-	-	562	20	68,304	-	2
Dividends declared and paid	25,737	19,681	5,047	-	-	-	-

* The Slovak government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak government.

** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 16. Outstanding value added tax payable is presented in Note 19. Property and motor vehicle taxes are disclosed in Note 24.

Information on loans provided to the subsidiary is presented in Note 9. Information on receivables and liabilities from cash pooling is presented in Note 20.

The Company´s sales related mainly to supporting services provided to subsidiaries. The services sold to the subsidiaries and to the shareholder are provided based on service level agreements concluded for indefinite time period with cancellation notice of 3 months.

There are no other sales commitments with related parties as of 31 December 2017 and 2016 other than disclosed.

The income tax paid was as follows:

The income tax paid

In thousands of EUR	2017	2016
Current income tax expense at standard rate of 21% (2016: 22%) – refer to Note 16	1,000	1,176
Income tax refund (receivable) / liability at the beginning of the period	(780)	1,839
Income tax refund receivable at the end of the reporting period	122	780
Income tax paid	**(342)**	**(3,795)**

The related party transactions and outstanding balances were as follows for 2016:

Balances and Transactions with Related Parties

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Subsidiaries (Note 8)	Associate (Note 8)	Joint venture (Note 8)
Revenue	34	508	197	11	63,541	-	1,102
Purchases and expenses	-	11	2,060	158	2,698	-	1,862
Receivables other than taxes	-	14	51	3	639,443	-	-
Payables other than taxes	-	-	562	20	68,304	-	2
Dividends declared and paid	25,737	19,681	5,047	-	-	-	-

* The Slovak government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak government.

** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

The tables with related party transactions above and on the previous page exclude individually immaterial transactions such with the government ministries and many other government controlled or otherwise government related enterprises on normal commercial terms and conditions. Management did not identify other government related transactions that are collectively, but not individually, significant.

Key management personnel comprises (a) members of the Board of Directors, (b) members of the supervisory board and (c) divisional directors. Key management personnel remuneration comprised:

Key management personnel remuneration

In thousands of EUR	2017	2016
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	639	782
Defined contribution pension costs	73	57
Total remuneration of board of directors and other key management personnel	**712**	**839**
Supervisory board		
Salaries and other short-term employee benefits	95	163
Defined contribution pension costs	17	24
Total remuneration of supervisory board	**112**	**187**

39 Events after the End of the Reporting Period

The extraordinary General Meeting of shareholders of the Company on its session held on 18 December 2017 approved several organisational changes in the Company effective from 1 January 2018 (Note 30). The completion of the transaction is expected during the year 2018.

The Company issued bonds on 2 March 2018 in nominal value of EUR 315,000 thousand which are due on 2 March 2028 and carry a coupon of 1.750% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

After 31 December 2017, no other significant events have occurred that would require recognition or disclosure in these separate financial statements.

Management authorised these financial statements for issue on 21 March 2018:

Jochen Kley
Predseda predstavenstva a generálny riaditeľ

Marian Rusko
Člen predstavenstva

Annex

Consolidated Financial Statements

31 December 2017

Contents

Consolidated Statements of Financial Position

Consolidated Statements of Financial Position			
In thousands of EUR	**Note**	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Property, plant and equipment	6	780,798	748,203
Intangible assets	7	13,138	12,150
Equity method investments	8	558	1,127
Deferred income tax asset	15	12,499	8,947
Other non-current assets		703	740
Total non-current assets		**807,696**	**771,167**
Current assets			
Inventories	9	10,777	7,830
Trade and other receivables	10	108,043	104,273
Cash and cash equivalents	11	95,438	80,724
Total current assets		**214,258**	**192,827**
TOTAL ASSETS		**1,021,954**	**963,994**
EQUITY			
Share capital	12	196,969	196,969
Legal reserve fund	13	39,421	39,421
Retained loss		(186,164)	(233,268)
TOTAL EQUITY		**50,226**	**3,122**
LIABILITIES			
Non-current liabilities			
Issued bonds	14	314,396	628,828
Deferred income tax liabilities	15	30,306	29,520
Post-employment defined benefit obligations	16	9,752	9,507
Other long term employee benefits	17	2,408	2,404
Deferred connection fees and customer contributions	18	95,464	82,660
Total non-current liabilities		**452,326**	**752,919**
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	14	319,114	4,114
Trade and other payables	19	187,689	191,524
Deferred connection fees and customer contributions	18	6,420	5,551
Current income tax liabilities		6,179	6,764
Total current liabilities		**519,402**	**207,953**
TOTAL LIABILITIES		**971,728**	**960,872**
TOTAL LIABILITIES AND EQUITY		**1,021,954**	**963,994**

These consolidated financial statements have been approved for issue by the Board of Directors on 6 February 2018.

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Consolidated Statements of Profit or Loss and Other Comprehensive Income

Consolidated Statements of Profit or Loss and Other Comprehensive Income

In thousands of EUR	Note	2017	2016
Revenue from electrity and other related revenue	20	**966,088**	**919,449**
Revenue from natural gas		**98,909**	**81,257**
Purchases of electricity and related fees	21	(683,147)	(640,932)
Natural gas purchased		(90,119)	(74,566)
Employee benefits	22	(63,550)	(60,213)
Depreciation of property, plant and equipment	6	(44,830)	(44,960)
Amortization of intangible assets	7	(4,263)	(3,830)
Other operating expenses	23	(53,044)	(56,509)
Share of profit of equity method investments	8	762	235
Other operating income	24	6,506	7,415
Own work capitalised		17,644	18,361
Profit from operations		**150,956**	**145,707**
Finance income / (costs)			
Interest income		84	89
Interest and similar expense	25	(21,106)	(23,795)
Finance costs, net		**(21,022)**	**(23,706)**
Profit before tax		**129,934**	**122,001**
Income tax expense	15	(32,373)	(23,379)
Profit for the year		**97,561**	**98,622**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	**16**	**11**	**1,398**
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	**15**	**(3)**	**(294)**
Total other comprehensive income for the year		**8**	**1,104**
Total comprehensive income for the year		**97,569**	**99,726**

Consolidated Statements of Changes in Equity

Consolidated Statements of Changes in Equity				
In thousands of EUR	**Share capital**	**Legal reserve fund**	**Accumulated deficit**	**Total equity**
Balance at 1 January 2016	**196,969**	**39,421**	**(275,425)**	**(39,035)**
Profit for the year	-	-	98,622	**98,622**
Other comprehensive income for the year	-	-	1,104	**1,104**
Total comprehensive income for 2016	-	-	99,726	**99,726**
Dividends declared and paid (Note 12)	-	-	(57,570)	**(57,570)**
Other			1	**1**
Balance at 31 December 2016	**196,969**	**39,421**	**(233,268)**	**3,122**
Profit for the year	**-**	**-**	97,561	**97,561**
Other comprehensive income for the year	-	-	8	**8**
Total comprehensive income for 2017	**-**	**-**	**97,569**	**97,569**
Dividends declared and paid (Note 12)	**-**	**-**	(50,465)	**(50,465)**
Balance at 31 December 2017	**196,969**	**39,421**	**(186,164)**	**50,226**

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows			
In thousands of EUR	**Note**	**2017**	**2016**
Cash flows from operating activities			
Profit before tax		129,934	122,001
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	44,830	44,960
- Loss on disposal of property, plant and equipment	6	295	224
- Amortisation of intangible assets	7	4,263	3,830
- Interest income		(84)	(89)
- Interest and similar expense		21,106	23,795
- Share of profit of equity method investments		(762)	(235)
- Other non-cash items		54	(36)
Cash generated from operations before changes in working capital		199,636	194,450
Changes in working capital:			
- Inventories		(2,947)	1,816
- Trade and other receivables		(3,458)	(11,518)
- Trade and other payables		(5,215)	32,564
- Provisions for liabilities and charges and deferred income		(6,043)	(6,069)
Cash generated from operations before interest and taxes		**181,973**	**211,243**
Interest income received		84	89
Interest expense paid		(20,100)	(20,394)
Income tax paid	33	(35,727)	(19,961)
Net cash from operating activities		**126,230**	**170,977**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(62,510)	(68,843)
Dividend income received from equity method investees		450	235
Proceeds from sale of property, plant and equipment and intangible assets		469	929
Proceeds from reduction of other capital funds of an associate		540	537
Other investing cash flows		-	(5)
Net cash used in investing activities		**(61,051)**	**(67,147)**
Cash flows from financing activitie			
Dividends paid	12	(50,465)	(57,570)
Net cash used in financing activities		**(50,465)**	**(57,570)**
Net change in cash and cash equivalents		**14,714**	**46,260**
Cash and cash equivalents at the beginning of the year		80,591	34,331
Cash and cash equivalents at the end of the year	**11**	**95,305**	**80,591**

Notes to the Consolidated Financial Statements – 31 December 2017 and 2016

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the years ended 31 December 2017 and 2016 for Západoslovenská energetika, a.s. (hereinafter "The Company" or "ZSE") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

Principal activity. The Group provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric plants and is engaged in some ancillary activities such as small-scale electricity network construction and maintenance related projects for third parties.

The Regulatory Office of Network Industries ("RONI") regulates certain aspects of the Group's relationships with its customers, including the pricing of electricity and gas and services provided to certain classes of the Group's customers.

The Group's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s., which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s.r.o. which operates two small hydroelectric plants, ZSE Business Services, s.r.o. which is a trading company and ZSE Development, s.r.o., which is a company providing services. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK2020285256.

Presentation currency. These consolidated financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2017 and 31 December 2016. The Company is jointly controlled by E.ON and the Slovak Government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 12.

List of members of the Company's board of directors and of the supervisory board is publicly available from the Commercial Register operated by the Ministry of Justice of the Slovak Republic at www.orsr.sk.

Number of employees. The Group employed 1,811 staff on average during 2017, of which 36 were management (2016: 1,793 employees on average, of which 38 were management).

2 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

The Board of Directors may propose to the Company's shareholders to amend the consolidated financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated upon consolidation; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Depreciation. Land and construction in progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Useful lives in years	
Electricity distribution network buildings	30 – 50 years
Office buildings	30 – 50 years
Power lines	15 – 40 years
Switching stations	4 – 20 years
Other network equipment	4 – 20 years
Vehicles	4 – 15 years

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Capitalisation of borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

Intangible assets. Intangible assets are initially measured at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met: (a) it is technically feasible to complete the software product so that it will be available for use; (b) management intends to complete the software product and use or sell it; (c) there is an ability to use or sell the software product; (d) it can be demonstrated how the software product will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (f) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

At the end of each reporting period management assesses whether there is any indication of impairment of intangible assets. If any such indication exists, management reduces the carrying value to the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

Inventories. Inventories are stated at the lower of acquisition cost and net realizable value. Weighted average method is used for determination of cost of inventories. The cost of material includes purchase price and directly attributable acquisition costs, such as customs duties or transportation costs. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) are considered objective evidence that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced using an allowance account, and the amount of the loss is expensed within "other operating expenses".

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against impairment losses within "other operating expenses".

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Provision for loss contracts (measured at fair value through profit or loss (FVTPL)). Provision for loss contracts represents contracts for delivery or supply of a commodity that is readily convertible to cash, and which are not held for own use, as evidenced by an open market exposure, which was subsequently closed at a loss. These contracts have all three of the following characteristics: (a) the contract's value changes in response to the change in market price of commodity, which is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The liability is carried at fair value through profit or loss.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the share issue.

Dividends. Dividends are recorded in equity in the period in which they are declared. The separate financial statements of the Company are the basis for profit distribution and other appropriations.

Legal reserve fund. The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund were made at 10% of the Company's profit for the year, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

Issued bonds, loans and other borrowings. Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortized cost using the effective interest method. The liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Current income tax also includes a special levy on profits in regulated industries at a rate of 8.712% per annum on profits from regulated activities. From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled.

The special levy on profits is chargeable on profits determined in accordance with Slovak GAAP and hence, a deferred tax in relation to special levy arises only where there is a temporary difference between Slovak GAAP and IFRS carrying values of assets and liabilities. Such deferred taxes arose for the first time in 2016 when the Slovak parliament enacted a law making the levy applicable indefinitely as explained above.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group offsets deferred tax assets and deferred tax liabilities where the Group has a legally enforceable right to set off current tax assets against current tax liabilities and these relate to income taxes levied by the same taxation authority.

Post-employment and other long term employee benefits. The Group contributes to state and private defined contribution pension and social benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are expensed when incurred.

As agreed with the trade unions, the Group also has (a) a post-employment defined benefit obligation to pay one to seven monthly salaries to each employee upon retirement, depending on the number of years worked for the Company and (b) an obligation to pay work and life anniversary long service bonuses. These obligations are recognised as liabilities estimated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Actuarial remeasurements on post-employment benefits arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise, and are immediately reclassified to retained earnings in the statement of changes in equity. Actuarial remeasurements of the obligation to pay work and life anniversary long service bonuses are recognised in profit or loss for the year as employee benefits expense when incurred. Past service costs, if any, are expensed when incurred.

As explained in IAS 19, Employee Benefits, paragraph 133, the Group does not distinguish current and non-current portions of defined benefit obligations and presents the estimate as a whole within non-current liabilities.

Deferred income. Over time, the Group received contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. The Group's customers contributed towards the cost of their connection.

Customer contributions are recognised at their fair value where there is a reasonable assurance that the contribution will be received. Customer contributions relating to the acquisition of property, plant and equipment are deferred and subsequently recognised as other operating income over the life of acquired depreciable asset.

Trade payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within less than one year, or within the entity's operating cycle. All other accounts payable are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Leases. The Group is a lessee.

(i) Operating lease

Leases, in which a significant portion of the risks and rewards of the ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (including incentives received from the lessor) are expensed on a straight-line basis over the period of the lease.

(ii) Financial lease

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of the ownership of the asset are classified as financial leases. Financial leases are recognized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest costs are charged to the Statement of Comprehensive Income over the lease period using the effective interest rate method applied to the balance of lease obligation for each period. Property, plant and equipment acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Construction contracts. The Group has an ancillary business related to construction of energy assets for third parties. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. Contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Provisions / Contingent liabilities. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax-rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase of the provision due to passage of time is recognised as interest expense.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of electicity, natural gas, other goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria will be met for each of the Group's activities as described below. The amount of revenue is not considered reliably measurable until all contingencies relating to the sale have been resolved.

Revenue from sale and distribution of electricity. Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2017. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2017 for all twelve billing cycles will be completed in December 2018. The Group uses the Enersim demand profile data for estimating the delivered but unbilled accrued revenue. Network losses are included in the cost of purchased electricity.

Revenue from the sale of electricity on the spot market and the settlement of variations in consumption and cross - border profile recharges represent sales of electricity purchased on the short-term market for regular customers due to short-term deviations in their consumption diagrams and fees paid by the regular customers for deviating from the planned consumption curve. All these revenues realised on the spot market are recognised when the electricity is delivered or the contract is fulfilled.

Revenue from sale of gas. Revenue from the sale of gas is recognised when the gas is delivered to the customer. Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Company split its household customer base to twelve billing cycles. The billing of gas supplied in 2017 for all twelve billing cycles will be completed in December 2018.

Connection fees. ZSE receives a contribution from their customers to connect them to the electricity network – connection fees. Revenue from such contributions is recognised as deferred income and is released to profit or loss over the useful life of the related assets (approximately over 20 years).

Sales of services. Sales of services are recognised in the reporting period in which the services are rendered, by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

Dividend income. Dividend income is recognised when the right to receive the payment is established and inflow of economic benefits is probable.

Interest income. Interest income is recognised on an accrual basis using the effective interest method.

Contractual penalties. Contractual penalties are recognised when the cash payment is received, because contractual penalties relate to contracts with customers who intended to defraud ZSE and as such are relatively difficult to collect.

Foreign currency translation. These financial statements are presented in thousands of EUR, which is the Group's presentation currency. The functional currency of all entities within the Group is EUR.

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Segment information. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Group in preparing its consolidated statement of profit or loss and other comprehensive income.

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group:
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 29.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

4 New Accounting Pronouncements

Certain new standards, interpretations and amendments have been issued that are mandatory for annual periods beginning on or after 1 January 2017, and which the entity has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:
- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances, magnitude, volumes, methodology that exist at that date, the management of the Group is expecting an impact as of 1 January 2018 in the areas of impairment provisions against trade and other receivables and cash in banks. The expected impact is not material.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014, amended on 12 April 2016 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed..

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 will result in changes in accounting policies and adjustments to be recognised in the consolidated financial statements. Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Group is expecting a non-significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018, in particular from capitalization of commissions paid to external agents selling the Group`s products as contract assets.

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments"* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

The following standards, interpretations and amendments are not expected to have any material impact on the Group's consolidated financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018)

- Amendments to IFRS 2, Share-based Payment* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

- Annual Improvements to IFRSs 2014-2016 Cycle* (issued on 8 December 2016 and effective for annual periods beginning on after 1 January 2018 for amendments to IFRS 1 and IAS 28).

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- Transfers of Investment Property - Amendments to IAS 40* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- IFRS 17, Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

- Prepayment Features with Negative Compensation – Amendments to IFRS 9* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23* (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

* These new standards, amendments and interpretations have not been endorsed by the European union yet.

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Critical estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Unbilled electricity. The unbilled revenue from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future.

The Group uses a bespoke customer application Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on:

a) odthe estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period;
(b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis;
(c) the estimated losses in the distribution network; and
(d) the unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution. Refer to Note 20.

The Group also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximately 10 GWh of electricity (2016: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 850 thousand (2016: EUR 913 thousand).

Estimated useful life of electricity distribution network. The estimation of the useful lives of network assets is a matter of judgment based on past experience with similar items. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any.

If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2017, the Group would have recognised an additional depreciation of network assets of EUR 4,483 thousand (2016: EUR 4,496 thousand).

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2017:

Movements in the carrying amount of property, plant and equipment during 2017

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2017	21,266	100,793	637,688	353,252	110,958	46,081	**1,270,038**
Accumulated depreciation and impairment losses	-	(46,687)	(243,170)	(168,008)	(63,970)	-	**(521,835)**
Carrying amount at 1 January 2017	21,266	54,106	394,518	185,244	46,988	46,081	**748,203**
Additions	-	-	-	-	-	76,959	**76,959**
Capitalised borrowing costs**	-	-	-	-	-	1,563	**1,563**
Transfers	349	3,434	39,322	25,287	4,342	(72,734)	**-**
Depreciation charge	-	(3,303)	(16,528)	(18,589)	(6,410)	-	**(44,830)**
Disposals	(7)	(2)	(3)	(366)	(173)	(546)	**(1,097)**
Cost at 31 December 2017	**21,608**	**103,370**	**675,338**	**375,380**	**108,835**	**51,323**	**1,335,854**
Accumulated depreciation and impairment losses	**-**	**(49,135)**	**(258,029)**	**(183,804)**	**(64,088)**	**-**	**(555,056)**
Carrying amount at 31 December 2017	**21,608**	**54,235**	**417,309**	**191,576**	**44,747**	**51,323**	**780,798**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was approximately 3.59% p.a. for 2017.

In management's judgement the electricity distribution network does not fall in the scope of IFRIC 12, Service Conscession Arrangements, and it is thus not presented as an intangible asset because (a) the Group is able to sell or pledge the infrastructure assets and (b) the arrangement with the regulator and the Slovak Government is not the typical 'build-operate-transfer' concession, but rather a privatisation, which the Information Note 2 to IFRIC 12 indicates falls in the scope of IAS 16, Property, plant and equipment. The Group did not pledge any property, plant or equipment as collateral for its borrowings or other financial liabilities at the end of the current and comparative reporting period.

The proceeds from disposal of property, plant and equipment were as follows:

The proceeds from disposal of property, plant and equipment

In thousands of EUR	2017	2016
Net book value of disposals	1,097	1,153
Gain/(Loss) on disposal of property, plant and equipment (Note 24)	(295)	(224)
Other non-cash movements	(333)	-
Proceeds from disposals	**469**	**929**

Movements in the carrying amount of property, plant and equipment were as follows during 2016:

Movements in the carrying amount of property, plant and equipment during 2016

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2016	20,970	95,997	602,060	336,118	115,520	40,011	**1,210,676**
Accumulated depreciation and impairment losses	-	(43,243)	(228,843)	(152,933)	(66,865)	-	**(491,884)**
Carrying amount at 1 January 2016	20,970	52,754	373,217	183,185	48,655	40,011	**718,792**
Additions	-	-	-	-	-	74,093	**74,093**
Capitalised borrowing costs**	-	-	-	-	-	1,431	**1,431**
Transfers	327	5,105	38,020	20,775	5,227	(69,454)	**-**
Depreciation charge	-	(3,288)	(16,717)	(18,121)	(6,834)	-	**(44,960)**
Disposals	(31)	(465)	(2)	(595)	(60)	-	**(1,153)**
Cost at 31 December 2016	**21,266**	**100,793**	**637,688**	**353,252**	**110,958**	**46,081**	**1,270,038**
Accumulated depreciation and impairment losses	**-**	**(46,687)**	**(243,170)**	**(168,008)**	**(63,970)**	**-**	**(521,835)**
Carrying amount at 31 December 2016	**21,266**	**54,106**	**394,518**	**185,244**	**46,988**	**46,081**	**748,203**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.

** Capitalisation rate of borrowing costs was 3.59% p.a. for 2016.

The Group holds insurance against damages caused by natural disasters up to EUR 558,022 thousand for buildings and up to amount of EUR 582,272 thousand for machinery, equipment, fixtures, fittings and other assets (2016: EUR 550,080 thousand and 571,549 thousand, respectively).

At 31 December 2017 the Group holds power lines and switching stations and network equipment acquired through finance lease (where the Group is the lessee) with cost of EUR 5,552 thousand, accumulated depreciation of EUR 380 thousand and carrying amount of EUR 5,172 thousand (2016: cost of EUR 4,639 thousand, accumulated depreciation of EUR 232 thousand and carrying amount of EUR 4,406 thousand).

The property, plant and equipment disclosed in movement table above include carrying value of assets leased out under operating leases as follows:

The property, plant and equipment disclosed in movement table above include carrying value of assets leased out under operating leases

In thousands of EUR	2017	2016
Equipment, vehicles and other assets – optical lines and related technology	8,727	8,178
Total carrying value of assets leased out under operating leases	**8,727**	**8,178**

Rental income is presented in Note 24. Future rental income due within one year from non-cancellable operating leases is EUR 224 thousand (2016: EUR 268 thousand), amount due from two to five years is EUR 0 thousand (2016: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2016: EUR 0 thousand).

7 Intangible Assets

Movements in the carrying amount of intangible assets were as follows:

Movements in the carrying amount of intangible assets

In thousands of EUR	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2016	49,177	3,784	**52,961**
Accumulated amortisation and impairment losses	(40,903)	-	**(40,903)**
Carrying amount at 1 January 2016	**8,274**	**3,784**	**12,058**
Additions	-	3,922	**3,922**
Transfers	4,150	(4,150)	**-**
Amortisation charge	(3,830)	-	**(3,830)**
Cost at 31 December 2016	53,313	3,556	**56,869**
Accumulated amortisation including impairment charge	(44,719)	-	**(44,719)**
Carrying amount at 31 December 2016	**8,594**	**3,556**	**12,150**
Additions	-	5,251	**5,251**
Transfers	4,215	(4,215)	**-**
Amortisation charge	(4,263)	-	**(4,263)**
Cost at 31 December 2017	57,529	4,592	**62,121**
Accumulated amortisation including impairment charge	(48,983)	-	**(48,983)**
Carrying amount at 31 December 2017	**8,546**	**4,592**	**13,138**

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer and the graphical information system. Software and similar assets disclosed in table above include individual projects, which are partialy purchased and partialy developed by own employees therefore it is not possible to separate the disclosed amounts to those two categories.

8 Equity Method Investments

Equity Method Investments

In thousands of EUR	2017	2016
Energotel, a.s. - 20% investment in joint venture	525	525
E.ON Business Services Slovakia, spol. s r.o. in liquidation – 49% investment in an associate	-	569
SPX, s.r.o.	33	33
Total equity method investments	**558**	**1,127**

Disposals during the year 2017 represent completion of the liquidation of the associated company E.ON Business Services Slovakia spol. s r. o. in liquidation on 30 November 2017.

9 Inventories

Inventories		
In thousands of EUR	**2017**	**2016**
Natural gas	9,677	6,708
Materials and spare parts	1,100	1,122
Total inventories	**10,777**	**7,830**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 10 thousand (2016: EUR 9 thousand).

Natural gas is held in an underground gas storage facility controlled by a related party under significant influence of the Slovak Government.

10 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2017**	**2016**
Trade receivables	131,330	132,472
Less impairment provision for trade receivables	(29,232)	(29,692)
Trade receivables, net	**102,098**	**102,780**
Commodity contracts at FVTPL	3,384	715
Excise tax receivables	30	-
Prepayments	2,531	778
Total trade and other receivables	**108,043**	**104,273**

Movements in the impairment provision for trade receivables are as follows:

Movements in the impairment provision for trade receivables		
In thousands of EUR	**2017**	**2016**
Provision for impairment at 1 January	**29,692**	**29,805**
Impairment loss expense (Note 23)	1,183	281
Amounts written off during the year as uncollectible	(1,643)	(394)
Provision for impairment at 31 December	**29,232**	**29,692**

The credit quality of trade receivables and amounts due from customers for contract work is as follows:

The credit quality of trade receivables and amounts due from customers for contract work

In thousands of EUR	2017 Trade receivables	2016 Trade receivables
Total neither past due nor impaired	96,790	99,496
Individually impaired		
1 to 30 days past due	6,118	3,400
31 to 60 days past due	592	574
61 to 90 days past due	433	370
91 to 120 days past due	229	204
121 to 180 days past due	597	359
181 to 360 days past due	676	796
Over 360 days past due	25,895	27,273
Total individually impaired before provision for impairment	34,540	32,976
Less provision for impairment	(29,232)	(29,692)
Total trade receivables and amounts due from customers for contract work, net of provision	**102,098**	**102,780**

The Group has internal credit risk processes that include the assignement of individual credit rating to its customers based on the mix of external financial information as well as their payment discipline. Out of the receivables neither past due nor impaired as of 31 December 2017, approximately 89% is of considered of high credit quality by the Group based on the rating assigned (2016: from the receivables neither past due nor impaired were as at 31 January 2017 EUR 91,217 thousand collected, EUR 2,003 thousand not collected and not overdue and EUR 6,276 thousand became overdue). The Group has a concentration of credit risk towards related parties of the Slovak Government. Refer to Note 33.

11 Cash and Cash Equivalents

Cash and Cash Equivalents

In thousands of EUR	2017	2016
Current accounts with banks	95,438	80,724
Total cash and cash equivalents in the statement of financial position	**95,438**	**80,724**
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	**95,305**	**80,591**

The Group has a concentration of cash and cash equivalents balances towards six banks (2016: six banks).

The credit quality of cash and cash equivalents is as follows:

The credit quality of cash and cash equivalents

In thousands of EUR	2017	2016
Neither past due nor impaired		
Credit rating A1 by Moody's	101	1,034
Credit rating A2 by Moody's	54,031	65,094
Credit rating A3 by Moody's	39,598	-
Credit rating Baa1 by Moody's	975	14,214
Credit rating A- by Fitch	233	-
Credit rating BBB+ by Fitch	-	332
Unrated	500	50
Total cash and cash equivalents	**95,438**	**80,724**

As at 31 December 2017, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2016: EUR 75,000 thousand). As at 31 December 2017 the Group has drawn EUR 0 thousand from these facilities (2016: EUR 0 thousand).

12 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2016: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

The Company is jointly controlled by E.ON and the Slovak Government as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the reporting entity. The entity's governance structure dictates that the entity's strategic plan be approved by representatives of both E.ON and the Slovak Government. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while contractual restrictions exist for transfer of shares to parties not under control of existing shareholders.

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 50,465 thousand or EUR 8.50 per share (2016: dividends of EUR 57,570 thousand or EUR 9.70 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 118,434 thousand (2016: EUR 98,315 thousand).

13 Legal Reserve Fund

The legal reserve fund represents appropriations of profits of the Company required by Slovak legislation. The Company is obliged to appropriate at least 10% of its profit until the legal reserve fund achieves at least 20% of the Company's share capital. This fund is not distributable and exists to cover future losses.

14 Issued Bonds

The issued bonds (ISIN: XS0979598207) of EUR 315,000 thousand are due on 14 October 2018 and carry a coupon of 2.875% p.a. The series two issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.000% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

Amortised cost carrying value of the bonds is as follows:

Amortised cost carrying value of the bonds

In thousands of EUR	2017	2016
Issued bonds – non-current	**314,396**	**628,828**
Issued bonds – current	315,000	-
Accrued interest payable within one year and transaction costs	4,114	4,114
Issued bonds – current and accrued interest payable within one year	**319,114**	**4,114**
Amortised cost of the bonds	**633,510**	**632,942**

15 Income Taxes

Income tax expense comprises the following:

Income tax expense comprises

In thousands of EUR	2017	2016
Current tax at standard rate of 21% (2016: 22%)	29,683	24,804
Income tax related to prior periods	(2)	121
Special levy on profits from regulated activities	5,461	3,786
Deferred tax	(2,769)	(5,332)
Income tax expense/(credit) for the year	**32,373**	**23,379**

In 2017, the applicable standard income tax rate was 21% (2016: 22%). From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax per Slovak GAAP * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021.

The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

Tax rate

	2017	2016
Standard income tax rate for the year	21.000%	22.000%
Special levy rate	8.712%	4.356%
Effect of deductibility of special levy from standard rate*	(2.381)%	(1.100)%
Tax rate applicable on profits generated by regulated industry operations	**27.331%**	**25.256%**

* the effect is calculated as special levy rate in %*((1- income tax rate in %)/(1+ special levy rate in%)-1)

The Group includes activities or subsidiaries taxed at the standard tax rate of 21% or at the 27.331% rate applicable to regulated industry operations. The applicable tax rate of 24.667% (2016: 24.095%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated industries. The applicable tax rate changed compared to prior year due to changes in the special levy rate and in the mix of profits from regulated and unregulated industry operations.
A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates

In thousands of EUR	2017	2016
Profit before tax	**129,934**	**122,001**
Theoretical tax charge at applicable tax rate of 24.667% (2016: 24.095%)	32,051	29,396
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(162)	(52)
- expenses not deductible for standard tax but deductible for special levy purposes	(525)	982
Income tax related to prior periods	(2)	121
Effect of the first EUR 3 million exempt from special levy (for two consolidated entities)	-	(196)
Effect on deferred taxes of change in standard tax rate to 21% from 1 January 2017	-	(980)
Effect on deferred taxes of extension of special levy for indefinite period	905	(6,730)
Other	106	838
Income tax expense for the period	**32,373**	**23,379**

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2017, that will become current tax in 2018, will be settled in 2019 upon filing the 2018 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred income tax assets and liabilities are not offset.

Deferred taxes are attributable to the following temporary differences:

Deferred taxes

In thousands of EUR	2017	2016
Differences between tax base and carrying value of property, plant and equipment	42,466	36,362
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	(644)	(653)
Post-employment defined benefit obligation	(1,450)	(1,198)
Other long term employee benefits	(332)	(251)
Other liabilities	(8,091)	(3,521)
Provision for impairment of trade receivables	(291)	(166)
Other	(1,352)	(1,053)
Total net deferred tax liability	**30,306**	**29,520**

Deferred taxes

In thousands of EUR	2017	2016
Differences between tax base and carrying value of property, plant and equipment	39	44
Differences between tax base and carrying value of property, plant and equipment (deferred tax related to special levy)	5,181	6,077
Post-employment defined benefit obligation	125	91
Other long term employee benefits	33	22
Other liabilities	6,144	1,726
Provision for impairment of trade receivables	790	708
Other	187	279
Total net deferred tax asset	**12,499**	**8,947**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (3) thousand (2016: EUR (294) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

Slovak parliament enacted a tax on dividend income from profits earned on or after 1 January 2017. The Group has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future, and (b) the tax is not applicable to dividends from Slovak subsidiaries, associates and joint ventures of the Group.

In addition, the Group is able to control the timing of the reversal of such temporary differences in respect of subsidiaries and does not intend to reverse them in the foreseeable future, e.g. through taxable dividend income from subsidiaries.

16 Post-Employment Defined Benefit Obligations

As agreed with the trade unions, the Group has a post-employment defined benefit obligation to pay one to seven monthly salaries to each employee upon retirement depending on the number of years worked for the Company.

The movements in the present value of defined benefit obligation are:

The movements in the present value of defined benefit obligation	2017	2016
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**9,507**	**10,638**
Current service cost	518	391
Interest cost	94	187
Past service costs due to changes in the defined benefit plan rules	(70)	14
Total expense (Note 22)	542	592
Actuarial remeasurements:		
- attributable to changes in financial assumptions	(173)	1,196
- attributable to changes in demographic assumptions	140	(2,828)
- attributable to experience adjustments	22	234
Total actuarial remeasurements recognised in other comprehensive income	(11)	(1,398)
Benefits paid during the year	(286)	(325)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**9,752**	**9,507**

The principal actuarial assumptions were as follows:

The principal actuarial assumptions	2017	2016
Number of employees at 31 December	1,854	1,805
Staff turnover	4.55% p.a.	4.55% p.a.
Expected salary increases short-term	5.00% p.a.	2.50% p.a.
Expected salary increases long-term	4.00% p.a.	3.00% p.a.
Discount rate	1.30% p.a.	1.10% p.a.

In 2016, Slovak legislation has changed and the retirement age will depend on expected longevity of the population. This effect, along with staff turnover, resulted in an actuarial gain presented within actuarial remeasurements attributable to changes in demographic assumptions.
In 2016, Slovak legislation also removed a cap on social security tax payable on the post-employment benefits with effect from 2017, which in combination with salary level assumptions resulted in an actuarial loss presented above as a loss attributable to changes in demographic assumptions. Management applied its judgement in determining that the changes in legislation are not past service costs caused by changes in the benefit plan rules and thus recognised the effects in other comprehensive income as an actuarial remeasurement caused by changes in retirement age, salary level and social security tax assumptions.

17 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2016: EUR 1,700) payment to each employee at the age of 50, subject to 5 year service vesting condition (2016: 10 year). In addition, the Group pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2016: between EUR 370 to EUR 1,150).

The liability for other long-term employee benefits was estimated using the Projected Unit Credit Method.

18 Deferred Connection Fees and Customer Contributions

Deferred Connection Fees and Customer Contributions

In thousands of EUR	2017	2016
Non-current		
Customer contributions	31,533	30,990
Connection fees	63,931	51,670
Total non-current deferred income	**95,464**	**82,660**
Current		
Customer contributions	1,678	1,678
Connection fees	4,742	3,873
Total current deferred income	**6,420**	**5,551**

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Group by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets.

Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years.

19 Trade and Other Payables

Trade and Other Payables

In thousands of EUR	2017	2016
Trade payables	18,893	76,504
Other accrued liabilities	66,367	15,594
Commodity contracts at FVTPL	9,050	6,392
Payables from leasing	3,006	3,135
Other financial liabilities	2,984	5,793
Total financial instruments within trade and other payables	**100,300**	**107,418**
Deferred electricity and distribution fees	42,988	36,962
Employee benefits payable	2,418	2,288
Social security on employee benefits	1,613	1,861
Accrued staff costs	9,645	9,064
Advance payments	22,088	20,051
Value added tax payable	5,068	5,864
Other payables	3,569	7,895
Excise duty payable	-	121
Total trade and other payables	**187,689**	**191,524**

The Group had overdue trade payables of EUR 106 thousand (2016: EUR 192 thousand). None of the payables are overdue more than 30 days at 31 December 2017.

20 Revenue from Electricity and Other Related Revenue

Revenue from electricity comprises the following:

Revenue from electricity comprises In thousands of EUR	2017	2016
Sales of electricity to industrial and commercial customers	191,734	188,761
Sales of electricity to residential customers	80,563	90,234
Total sales of electricity	272,297	278,995
Distribution fees for electricity to industrial and commercial customers	470,768	429,909
Distribution fees for electricity to residential customers	199,383	188,764
Revenues for reserved capacity	11,127	10,146
Total distribution fees	681,278	628,819
Revenues for connection work and testing fees	4,684	3,981
Other revenue	7,829	7,654
Total revenue from electricity and other revenue	**966,088**	**919,449**

Comparative amounts were reclassified to conform to the presentation in the current period.

In particular EUR 580 thousand was reclassified from other purchases of electricity and related fees to other revenues. The changes in the presentation did not have an impact on the total amount of assets, equity or the result of operations of the previous period

The Group provides access to its electricity distribution network at regulated prices. Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007. However, price regulation applies to certain protected groups of customers.

21 Purchases of Electricity and Related Fees

The following amounts have been charged to purchases of electricity and related fees:

The following amounts have been charged to purchases of electricity In thousands of EUR	2017	2016
Purchase of electricity from: Slovenské elektrárne (”SE”)	73,502	114,688
Purchase of electricity from other domestic producers and traders	110,600	97,916
Purchase of electricity on the spot market	64,639	35,429
Total electricity purchases	**248,741**	**248,033**
Electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services and renewable sources feed-in tariffs	434,406	392,899
Total purchases of electricity and related fees	**683,147**	**640,932**

Comparative amounts were reclassified to conform to the presentation in the current period. In particular EUR 137,769 thousand was reclassified from purchase of electricity from other domestic producers and traders to electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services as such classification better reflects the nature of the costs. Further, EUR 580 thousand was reclassified from purchases of electricity and related fees to other revenues. The changes in the presentation did not have an impact on the total amount of assets, equity or the result of operations of the previous period.

22 Employee Benefits

Employee Benefits		
In thousands of EUR	**2017**	**2016**
Wages and salaries	42,193	39,855
Defined contribution pension costs	7,545	7,065
Post-employment defined benefit plan expense (Note 16)	542	592
Other long-term employee benefit plans – current service and interest cost (Note 17)	(34)	(108)
Actuarial remeasurements of other long-term employee benefit plans (Note 17)	39	256
Other social costs	13,265	12,553
Total employee benefits expense	**63,550**	**60,213**

23 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2017**	**2016**
Information technology and software maintenance costs	12,196	10,258
Repairs and maintenance costs	6,273	8,847
Operating lease expense	3,718	3,710
Postal and telecommunication services	2,415	2,652
Call centre services	2,528	2,667
Security services	1,366	1,197
Advertising services	1,234	1,249
Travel expenses	976	997
Statutory audit	264	257
Other services	7,426	9,026
Personal leasing and external dealers commission	2,164	2,632
Advisory services	1,024	1,571
Marketing	1,130	1,276
Operation and maintenance of telecommunication network	668	678
Facility management expenses	982	1,013
Impairment loss on trade and other receivables (Note 10)	1,183	281
Property and motor vehicle tax	607	603
Gifts	554	529
Insurance	625	598
Other operating expenses	5,711	6,468
Total other operating expenses	**53,044**	**56,509**

24 Other Operating Income

Other Operating Income		
In thousands of EUR	**2017**	**2016**
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,208	1,311
Gain/(loss) on disposal of fixed assets (Note 6)	(295)	(224)
Income from contractual penalties	452	661
Income from unauthorized consumption of electricity	285	249
Fees for payment reminders	1,303	1,632
Other	1,875	2,108
Total other operating income	**6,506**	**7,415**

25 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	**2017**	**2016**
Interest expense on bonds	21,656	21,656
Amortisation of bonds transaction costs	667	677
Other interest expense	346	2,893
Less capitalised borrowing costs (Note 6)	(1,563)	(1,431)
Total interest and similar expense	**21,106**	**23,795**

26 Segment Reporting

The Group's operating segments are those used by the Board of Directors to manage the Group's business, allocate resources and make strategic decisions. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by RONI.

Electricity and gas supply. Supply of electricity and gas to wholesale and retail customers in Slovakia. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2016: 94%) of the Group's EBITDA and 94% (2016: 93%) of the Group's EBIT were generated from sales to customers who are subject to the price regulation.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric plants, trading activities and generates also some external revenues from projecting and engineering activities in investment construction for third parties.

Reportable segments information for 2017 is as follows:

Reportable segments information for 2017

In thousands of EUR	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	310,639	753,071	1,287	-	**1,064,997**
Inter-segment revenues	191,546	27,536	38,768	(257,850)	-
Total segment revenues	502,185	780,607	40,055	(257,850)	**1,064,997**
Purchases of electricity and related fees	(243,355)	(652,915)	(3,330)	216,453	**(683 147)**
Purchases of natural gas	-	(90,183)	-	64	**(90,119)**
Employee benefits expense	(42,198)	(8,336)	(13,028)	12	**(63,550)**
Other operating expenses	(61,044)	(17,140)	(20,149)	45,289	**(53,044)**
Share of profit of equity method investees	-	-	67,175	(66,413)	**762**
Other operating income	1,917	2,112	5,096	(2,619)	**6,506**
Own work capitalized	17,815	-	-	(171)	**17,644**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**175,320**	**14,145**	**75,819**	**(65,235)**	**200,049**
Depreciation of property, plant and equipment	(65,503)	(12)	(3,644)	24,329	**(44,830)**
Amortization of intangible assets	(2,627)	(1,314)	(394)	72	**(4 263)**
Earnings before interest and taxes (EBIT)	**107,190**	**12,819**	**71,781**	**(40,834)**	**150,956**
Capital expenditures	**74,812**	**2,029**	**4,648**	**(548)**	**80,941**

Reportable segments information for 2016 is as follows:

Reportable segments information for 2016

In thousands of EUR	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	275,875	723,197	1,634	-	**1,000,706**
Inter-segment revenues	199,255	24,547	38,558	(262,360)	-
Total segment revenues	475,130	747,744	40,192	(262,360)	**1,000,706**
Purchases of electricity and related fees	(223,656)	(634,564)	(3,015)	220,303	**(640,932)**
Purchases of natural gas	-	(74,638)	-	72	**(74,566)**
Employee benefits expense	(39,965)	(7,396)	(12,862)	10	**(60,213)**
Other operating expenses	(62,671)	(17,317)	(22,193)	45,672	**(56,509)**
Share of profit of equity method investees	-	-	51,190	(50,955)	**235**
Other operating income	1,948	2,672	5,269	(2,474)	**7,415**
Own work capitalized	18,443	-	-	(82)	**18,361**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**169,229**	**16,501**	**58,581**	**(49,814)**	**194,497**
Depreciation of property, plant and equipment	(67,487)	(7)	(3,679)	26,213	**(44,960)**
Amortization of intangible assets	(2,638)	(770)	(494)	72	**(3,830)**
Earnings before interest and taxes (EBIT)	**99,104**	**15,724**	**54,408**	**(23,529)**	**145,707**
Capital expenditures	**71,980**	**2,087**	**4,854**	**(585)**	**78,336**

Entity wide information. Revenue is analysed by type of product or service in Note 20. Substantially all of the Group's revenues are from customers in the Slovak Republic and all of the Group's property, plant and equipment and intangible assets are located in the Slovak Republic.

Reconciliation of EBIT for all segments to profit before tax is as follows:

Reconciliation of EBIT for all segments to profit before tax

In thousands of EUR	2017	2016
Total EBIT for all operating segments	**150,956**	**145,707**
Interest income	84	89
Interest and similar expense	(21,106)	(23,795)
Profit before tax	**129,934**	**122,001**

Reconciliation of capital expenditures to payments for purchases of property, plant and equipment and intangible assets is as follows:

Reconciliation of capital expenditures to payments for purchases of property, plant and equipment and intangible assets

In thousands of EUR	2017	2016
Total capital expenditures for all operating segments	**80,941**	**78,336**
Assets acquired but not paid for	(27,518)	(17,575)
Payments for assets acquired in prior periods	9,087	8,082
Payments for purchases of property, plant and equipment and intangible assets	**62,510**	**68,843**

27 Financial Risk Management

The Group's activities are exposing it to certain financial risks: market risks, credit risk and liquidity risk. The Group's principal financial instruments comprise trade receivables and payables, cash and cash equivalents, issued bonds, financial derivatives, and short-term bank deposits.

Foreign exchange risk. The Group operates in the domestic market, and its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the Group's operations as it has only an immaterial volume of transactions in currency other than EUR.

A reasonably possible change in spot exchange rate of EUR against foreign currencies as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

Equity price risk. The Group is not exposed to significant equity price risk because it does not have material financial investments in equities.

Interest rate risk. The Group does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

Commodity price risk. In 2017, the Group identified and recognised a provision for certain loss making commodity contracts. The Group does not have formal policies and processes in place for managing commodity price risks. In general, management aims to match electricity demand with corresponding purchase contracts. Should electricity price change by EUR 5 per MWh, the net impact on profit from revaluation of the commodity contracts, that are measured as financial instruments at fair value through profit or loss, would be negligible as the Group's net notional open amount is close to nil at the end of the reporting period.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Exposure to credit risk arises as a result of the Group's sales of energy and services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to wholesale and retail customers, including outstanding receivables and transactions made.

As for the banks and financial institutions, the Group has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, management assesses the credit quality of customer, taking into account its financial position, past experience and other factors. The Group does not set individual risk limits for counterparties. Except as disclosed in Note 10, as for trade receivables, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded. The credit quality of outstanding balances with banks is presented in Note 11 and credit quality information about trade receivables is included in Note 10.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Group relies on liquidity of financial markets and its ability to refinance its outstanding bonds. The Group's strategy is to secure the financing at least 6 months before the existing debt becomes due. The process of refinancing of the bonds maturing in October 2018 has already been launched.

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 20 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Group and (b) expected future cash outflows securing operation of the Group and leading to settlement of all liabilities of the Group, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Group to make short-term bank deposits.

The table below analyses the Group's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2017:

The maturity analysis is as follows at 31 December 2017

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 yearsv	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	315,000	-	315,000	**630,000**
Issued bonds – future interest payments	-	-	21,656	50,400	12,600	**84,656**
Trade payables (Note 19)	9,443	9,450	-	-	-	**18,893**
Other accrued liabilities (Note 19)	65,684	681	2	-	-	**66,367**
Gross finance lease liability	-	-	1,153	1,853	-	**3,006**
Other financial liabilities (Note 19)	2,984	-	-	-	-	**2,984**
Commodity contracts at FVTPL:						
- gross notional amount payable*	35,898	-	-	-	-	**35,898**
- gross notional amount receivable**	(30,232)	-	-	-	-	**(30,232)**
Total future payments, including future principal and interest payments	**83,777**	**10,131**	**337,811**	**52,253**	**327,600**	**811,572**

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis.

The maturity analysis is as follows at 31 December 2016:

The maturity analysis is as follows at 31 December 2016

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 yearsv	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	-	21,656	59,457	25,200	**106,313**
Trade payables (Note 19)	65,728	10,751	25	-	-	**76,504**
Other accrued liabilities (Note 19)	2,871	9,678	3,045	-	-	**15,594**
Gross finance lease liability	-	-	615	2,520	-	**3,135**
Other financial liabilities (Note 19)	5,793	-	-	-	-	**5,793**
Commodity contracts at FVTPL:						
- gross notional amount payable*	37,397	-	-	-	-	**37,397**
- gross notional amount receivable**	(31,720)	-	-	-	-	**(31,720)**
Total future payments, including future principal and interest payments	**80,069**	**20,429**	**25,341**	**376,977**	**340,200**	**843,016**

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis.

28 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group manages capital reported under IFRS as equity amounting to EUR 50,226 thousand at 31 December 2017 (31 December 2016: EUR 3,122 thousand). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group's management considers the most relevant indicator of capital management to be the return on average capital employed (ROACE). Management expects return on average capital employed to be higher than cost of capital. Indicator ROACE is calculated as follows: earnings before interest and taxes EBIT (in the consolidated statement of profit or loss and other comprehensive Income of the Group presented as profit from operations) / average capital.

The Group is not subject to any externally imposed regulatory capital requirements.

29 Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented.

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented.

In thousands of EUR	Issued bonds
At 1 January 2016	**632,301**
Payments of interest	(21,656)
Interest expense	20,394
Capitalised interest costs (Note 6)	1,431
Transaction costs utilization	472
At 31 December 2016	**632,942**
Payments of interest	(21,656)
Interest expense	20,100
Capitalised interest costs (Note 6)	1,563
Transaction costs utilization	561
At 31 December 2017 (Note 14)	**633,510**

30 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

Financial instruments carried at fair value. The provision for loss contracts represents financial instruments carried in the statement of financial position at fair value. The fair value measurement belongs to level 2 in the fair value hierarchy and the key input is the spot and forward electricity price per MWh.

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value

In thousands of EUR	31 December 2017			31 December 2016		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
ASSETS						
Trade receivables, net (Note 10)	-	102,098	102,098	-	102,780	102,780
Cash and cash equivalents (Note 11)	-	95,438	95,438	-	80,724	80,724
TOTAL ASSETS	**-**	**197,536**	**197,536**	**-**	**183,504**	**183,504**
LIABILITIES						
Issued bonds (Note 14)	695,066	-	633,510	714,231	-	632,942
Trade payables (Note 19)	-	18,893	18,893	-	76,504	76,504
Liabilities from finance leasing (Note 19)	-	3,006	3,006	-	3,135	3,135
Other accrued liabilities (Note 19)	-	66,367	66,367	-	15,594	15,594
Other financial liabilities (Note 19)	-	2,984	2,984	-	5,793	5,793
TOTAL LIABILITIES	**695,066**	**91,250**	**724,760**	**714,231**	**101,026**	**733,968**

31 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. All of the Group's financial assets fall in the loans and receivables category. All of the Group's financial liabilities were carried at amortised cost, except loss contracts that are financial instruments held for trading, which were carried at fair value through profit or loss.

32 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Group's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2012 to 2017 remain open to tax inspection.

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator and an unquantifiable risk exists that, in the future, such matters may crystallise in an unfavourable manner for the Group.

Capital expenditure commitments. At 31 December 2017, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 2,696 thousand (2016: EUR 8,517 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 1,775 thousand (2016: EUR 937 thousand).

Operating lease commitments. The future aggregate minimum lease payments under non-cancellable operating leases are due as follows:

The future aggregate minimum lease payments under non-cancellable operating leases

In thousands of EUR	2017	2016
No later than one year	2,580	2,834
Later than one year and no later than five years	5,818	6,806
Later than five years	857	2,406
Total	**9,255**	**12,046**

Operating lease expense for the year is disclosed in Note 23.

33 Balances and Transactions with Related Parties

The primary related parties of the Group are (a) its shareholders which have joint control over the Group as explained in Notes 1 and 12: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Group applies the exemption from disclosing transactions with the Slovak Government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, purchases of electricity from an entity in which the Slovak Government has a significant shareholding and other transactions presented below.

The related party transactions and outstanding balances were as follows for 2017:

The related party transactions and outstanding balances for 2017

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak Government*	Associate (Note 8)	Joint venture (Note 8)
Revenue	32	268	294	203,205	-	996
Purchases and expenses	-	(11)	8,445	415,196	-	2,434
Receivables other than taxes	-	14	51	2,652	-	-
Payables other than taxes	-	-	2,576	28,799	-	138
Dividends declared and paid	25,737	19,681	5,047	-	-	-

* The Slovak Government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak Government.
** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 15. Outstanding value added tax payable is presented in Note 19. Property and motor vehicle taxes are disclosed in Note 23.

The income tax paid was as follows:

The income tax paid

In thousands of EUR	2017	2016
Current income tax expense at standard rate of 21% (2016: 22%) – refer to Note 15	29,681	24,925
Special levy on profits from regulated activities (Note 15)	5,461	3,786
Income tax refund receivable/liability at the beginning of the period	(6,764)	1,986
Income tax refund receivable/liability at the end of the reporting period	(6,179)	(6,764)
Income tax paid	**(35,727)**	**(19,961)**

The related party transactions and outstanding balances were as follows for 2016:

The related party transactions and outstanding balances for 2016

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak Government*	Associate (Note 8)	Joint venture (Note 8)
Revenue	-	508	704	199,277	-	1,130
Purchases and expenses	-	11	11,493	432,467	-	2,593
Receivables other than taxes	-	8	253	21,972	-	108
Payables other than taxes	-	11	4,256	27,379	1,180	324
Dividends declared and paid	29,360	22,452	5,758	-	-	-

* The Slovak Government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak Government.
** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

The tables with related party transactions above and on the previous page exclude individually immaterial transactions such as supplies of electricity to hospitals, schools, to the government ministries and many other government controlled or otherwise government related enterprises on normal commercial terms and conditions. Management did not identify other government related transactions that are collectively, but not individually, significant.

Key management personnel comprises (a) members of the Board of Directors, (b) members of the supervisory board and (c) divisional directors. Key management personnel remuneration comprised:

Key management personnel remuneration comprised

In thousands of EUR	2017	2016
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	1,602	1,925
Defined contribution pension costs	189	155
Total remuneration of board of directors and other key management personnel	**1,791**	**2,080**
Supervisory board		
Salaries and other short-term employee benefits	281	359
Defined contribution pension costs	44	51
Total remuneration of supervisory board	**325**	**410**

34 Events after the End of the Reporting Period

After 31 December 2017, no significant events have occurred that would require recognition or disclosure in the 2017 financial statements.

Management authorised these financial statements for issue on 6 February 2018:

Jochen Kley
Predseda predstavenstva a generálny riaditeľ

Marian Rusko
Člen predstavenstva

Compelete annual report here.

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